

OXFORD

12th Edition

Introduction to **BUSINESS** **MANAGEMENT**

Editors

RUDANSKY-KLOPPERS
ERASMUS • STRYDOM

Contributors

BADENHORST-WEISS • BESTER
BOTHA • CANT • CILLIERS
DAVIS • GELDENHUYS
JANSEN VAN RENSBURG
KRUGER • MACHADO
MARX • MPOFU
POTGIETER • REELER
STEENKAMP • VENTER





12th Edition

Introduction to **BUSINESS** **MANAGEMENT**

Editors

RUDANSKY-KLOPPERS
ERASMUS STRYDOM

Contributors

BADENHORST-WEISS • BESTER
BOTH • CANT • CILLIERS
DAVIS • GELDENHUYS
JANSEN VAN RENSBURG
KRUGER • MACHADO
MARX • MPOFU
POTCIETER • REELER
STEENKAMP • VENTER

OXFORD
UNIVERSITY PRESS



Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of
Oxford University Press in the UK and in certain other countries

Published in South Africa by
Oxford University Press Southern Africa (Pty) Limited
Vasco Boulevard, Goodwood, N1 City, P O Box 12119, Cape Town,
South Africa

Oxford University Press Southern Africa (Pty) Ltd 2019

The moral rights of the author have been asserted

First published 2007
Tenth Edition published in 2016
Eleventh Edition published in 2019

All rights reserved. No part of this publication may be reproduced, stored in
a retrieval system, or transmitted, in any form or by any means, without the
prior permission in writing of Oxford University Press Southern Africa (Pty)
Ltd,

or as expressly permitted by law, by licence, or under terms agreed
with the appropriate reprographic rights organisation, DALRO, The Dramatic,
Artistic

and Literary Rights Organisation at dalro@dalro.co.za. Enquiries concerning
reproduction outside the scope of the above should be sent to the Rights
Department,

Oxford University Press Southern Africa (Pty) Ltd, at the above address.

You must not circulate this work in any other form
and you must impose this same condition on any acquirer.

Introduction to Business Management

Print ISBN: 978-0-19-073961-4
ePUB ISBN: 978-0-19-075180-7

Digital conversion by Elspring Tech

Acknowledgements

Publisher: Janine Loedolff

Managing Editor: Nadia Harley

Editor: Wendy Walton

Designer: Stronghold Publishing

Cover designer: Samantha Mouton

Typesetter: Stronghold Publishing

Indexer: Derika van Biljon

The authors and publisher gratefully acknowledge permission to reproduce
copyright material in this book.

Every effort has been made to trace copyright holders, but if any copyright
infringements have been made,

the publisher would be grateful for information that would enable any
omissions or errors to be corrected in subsequent impressions.

Links to third party websites are provided by Oxford in good faith and for
information only.

Oxford disclaims any responsibility for the materials contained in any third
party website referenced in this work.

CONTENTS IN BRIEF

Preface

Acknowledgements

PART 1 THE BUSINESS WORLD AND THE PLACE OF BUSINESS MANAGEMENT

- Chapter 1 The business world and business management
- Chapter 2 Entrepreneurship
- Chapter 3 Establishing a business
- Chapter 4 The business environment
- Chapter 5 Corporate social responsibility

PART 2 THE BUSINESS ORGANISATION AND MANAGEMENT

- Chapter 6 Introduction to general management
- Chapter 7 Planning
- Chapter 8 Organising
- Chapter 9 Leading
- Chapter 10 Controlling the management process

PART 3 THE FUNCTIONAL AREAS OF A BUSINESS

- Chapter 11 Operations management
- Chapter 12 Human resource management and the South African labour legislative framework
- Chapter 13 Marketing management
- Chapter 14 Financial management
- Chapter 15 Purchasing and supply management

Index

TABLE OF CONTENTS



Preface

Acknowledgements

PART 1 THE BUSINESS WORLD AND THE PLACE OF BUSINESS MANAGEMENT

Chapter 1 The business world and business management

Peet Venter

The purpose of this chapter

Learning outcomes

- 1.1 Introduction
- 1.2 The role of business in society
- 1.3 Business as the satisfaction of human needs
 - 1.3.1 The multiplicity of human needs
 - 1.3.2 Society's limited resources
 - 1.3.3 Need satisfaction: a cycle
- 1.4 The main economic systems
 - 1.4.1 The market economy
 - 1.4.2 The command economy
 - 1.4.3 Socialism
 - 1.4.4 Mixed economies
 - 1.4.5 The state and economic systems
 - 1.4.6 Summary of different economic systems
- 1.5 The need-satisfying institutions of the market economy
 - 1.5.1 Business organisations
 - 1.5.2 Government organisations

- 1.5.3 Non-profit-seeking organisations
- 1.6 The nature of business management
 - 1.6.1 Economics and business management as related sciences
 - 1.6.2 The purpose and task of business management
 - 1.6.3 Is business management an independent science?
 - 1.6.4 The interfaces between business management and other sciences
- 1.7 Classifying the study material of business management
- 1.8 Summary
- Small business perspective
- Questions for discussion
- Multiple-choice questions
- References

Chapter 2 Entrepreneurship

Annemarie Davis

- The purpose of this chapter
- Learning outcomes
- 2.1 Introduction
- 2.2 Different concepts of entrepreneurship
- 2.3 The contributions of entrepreneurship
- 2.4 Entrepreneurship in South Africa
- 2.5 The role of entrepreneurs and small-business owners in society
- 2.6 Why do entrepreneurs do what they do?
 - 2.6.1 Entrepreneurs' traits and characteristics
 - 2.6.2 Entrepreneurs' skills and industry experience

- 2.6.3 Opportunities arising from outsourcing
 - 2.6.4 Other reasons for entrepreneurship
 - 2.7 The entrepreneurial process
 - 2.7.1 Skills required for entrepreneurship
 - 2.7.2 Resources needed to start a business
 - 2.7.3 Business opportunities
 - 2.7.4 The feasibility of the idea or opportunity
 - 2.8 Entrepreneurship and the Fourth Industrial Revolution
 - 2.8.1 Industrial Revolution
 - 2.8.2 Artificial intelligence
 - 2.9 The small business
 - 2.9.1 Defining a small business
 - 2.9.2 The role of small businesses in the economy
 - 2.10 Summary
- Small business perspective
- Questions for discussion
- Multiple-choice questions
- References

Chapter 3 Establishing a business

Judith Geldenhuys, Johan Strydom and Rachelle Reeley

The purpose of this chapter

Learning outcomes

- 3.1 Introduction
- 3.2 The legal form of ownership
 - 3.2.1 Considerations when choosing a form of enterprise

- 3.2.2 The sole proprietorship
 - 3.2.3 The partnership
 - 3.2.4 The close corporation
 - 3.2.5 The company
 - 3.2.6 The business trust
 - 3.2.7 Co-operative societies
 - 3.2.8 Summary of legal forms of ownership
 - 3.3 Developing a business plan for the new business
 - 3.3.1 The objectives of a business plan
 - 3.3.2 Importance and necessity of the business plan
 - 3.3.3 Stakeholders in a business plan
 - 3.3.4 The scope of the business plan: How much planning is needed
 - 3.3.5 Components of the business plan
 - 3.3.6 Description of a new venture
 - 3.3.7 Analysing the market
 - 3.3.8 Determining the financial needs of the new venture
 - 3.4 The location of the business
 - 3.4.1 The choice of location
 - 3.4.2 Location factors
 - 3.5 Summary
- Small business perspective
- Questions for discussion
- Multiple-choice questions
- References

Chapter 4 The business environment

Johan Strydom and Rachelle Reeler

The purpose of this chapter

Learning outcomes

- 4.1 Introduction
- 4.2 The business and environmental change
- 4.3 The composition of the business environment
 - 4.3.1 The three sub-environments
 - 4.3.2 Characteristics of the business environment
- 4.4 The micro-environment
- 4.5 The market environment
 - 4.5.1 The market
 - 4.5.2 Suppliers
 - 4.5.3 Labour markets and labour unions
 - 4.5.4 Intermediaries
 - 4.5.5 Competitors
- 4.6 The macro-environment
 - 4.6.1 The composition of the macro-environment
 - 4.6.2 The technological environment
 - 4.6.3 The economic environment
 - 4.6.4 The social environment
 - 4.6.5 The physical environment
 - 4.6.6 The institutional-governmental environment
 - 4.6.7 The international environment
- 4.7 Opportunities and threats in the market environment and the macro-environment
- 4.8 Environmental scanning

4.9 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 5 Corporate social responsibility

Mari Jansen van Rensburg

The purpose of this chapter

Learning outcomes

5.1 Introduction

5.2 Introducing corporate social responsibility

5.2.1 What is corporate social responsibility?

5.2.2 Cannibals with forks: The triple bottom line

5.2.3 CSR in contemporary business management

5.3 Corporate governance

5.3.1 Corporate governance defined

5.3.2 Corporate governance compliance

5.3.3 How does corporate governance relate to CSR?

5.4 Sustainable development

5.4.1 Defining sustainable development

5.5 Stakeholder engagement

5.5.1 Defining stakeholders

5.5.2 Defining engagement

5.5.3 Principles for stakeholder engagement

5.5.4 The stakeholder-engagement process

5.5.5 The contribution of CSR to sustainable development

5.6 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

PART 2 THE BUSINESS ORGANISATION AND MANAGEMENT

Chapter 6 Introduction to general management

Sharon Rudansky-Kloppers

The purpose of this chapter

Learning outcomes

6.1 Introduction

6.2 The role of management

6.3 A definition of management

6.4 The different levels and functional areas of management in businesses

6.4.1 The different levels of management

6.4.2 The functional management areas in a business organisation

6.4.3 The function of general management

6.5 Skills needed at different managerial levels

6.6 The role of managers

6.7 The development of management theory

6.7.1 The main schools of thought on management

6.7.2 Some contemporary approaches to management

6.7.3 Conclusion

6.8 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 7 Planning

Petri Bester

The purpose of this chapter

Learning outcomes

7.1 Introduction

7.2 Characteristics of planning

7.3 The importance of planning

7.4 Facilitating planning in the organisation

7.5 The planning process

7.6 The types of planning

7.6.1 Strategic planning

7.6.2 Tactical planning

7.6.3 Operational planning

7.6.4 Contingency planning

7.7 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 8 Organising

Tersia Botha

The purpose of this chapter

Learning outcomes

- 8.1 Introduction
- 8.2 The importance of organising
- 8.3 The fundamentals of organising
 - 8.3.1 Designing jobs
 - 8.3.2 Grouping jobs: departmentalisation
 - 8.3.3 Establishing reporting relationships
 - 8.3.4 Establishing authority relationships
 - 8.3.5 Co-ordinating activities
- 8.4 The informal organisation
- 8.5 Factors that influence organisational structure
 - 8.5.1 The environment in which a business operates
 - 8.5.2 The relationship between strategy and structure
 - 8.5.3 The size of the business
 - 8.5.4 Staff employed by the business
 - 8.5.5 The organisational culture
- 8.6 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 9 Leading

Petri Bester

The purpose of this chapter

Learning outcomes

9.1 Introduction

9.2 Leadership and management

9.3 The elements of leadership

9.3.1 Technology to facilitate leadership

9.4 Leadership types and styles

9.4.1 Autocratic leaders

9.4.2 Participative leaders

9.4.3 Laissez-faire leadership

9.4.4 Contemporary approach to leadership: transformational and
visionary leaders

9.4.5 Contemporary approach to leadership: managing diversity

9.4.6 Contemporary approach to leadership: servant leadership and
stewardship

9.5 Ethical leadership

9.6 Groups and teams

9.7 Communication

9.8 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 10 Controlling the management process

Tersia Botha

The purpose of this chapter

Learning outcomes

10.1 Introduction

10.2 The purpose of control

10.3 The control process

10.3.1 Step 1: Establish standards

10.3.2 Step 2: Measure actual performance

10.3.3 Step 3: Evaluate deviations

10.3.4 Step 4: Take corrective action

10.4 Types of control

10.4.1 Areas of control

10.5 Characteristics of an effective control system

10.5.1 Integration

10.5.2 Flexibility

10.5.3 Accuracy

10.5.4 Timeliness

10.5.5 Simplicity

10.6 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

PART 3 THE FUNCTIONAL AREAS OF A BUSINESS

Chapter 11 Operations management

Louis Krüger and Rigard Steenkamp

The purpose of this chapter

Learning outcomes

11.1 Introduction

11.1.1 The importance of operations management

11.1.2 Defining terms used in operations management

11.2 An operations-management model

11.2.1 Operations-management strategies and performance objectives

11.2.2 Innovation management

11.2.3 The transformation model

11.3 The classification of process types for manufacturers and service providers

11.3.1 The classification of process types for manufacturers

11.3.2 Project management guidelines

11.3.3 The classification of process types for service providers

11.4 Operations design

11.4.1 The nature of operations design

11.4.2 The design of products and services

11.4.3 The design of operations processes

11.5 Operations planning and control

11.5.1 The nature of operations planning and control

11.5.2 Capacity planning and control

11.5.3 Inventory and supply-chain planning and control

- 11.5.4 Quality planning and control
- 11.6 Operations improvement
 - 11.6.1 The nature of operations improvement
 - 11.6.2 Failure prevention and recovery
 - 11.6.3 Total quality management
- 11.7 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 12 Human resource management and the South African labour legislative framework

Barney Erasmus and Ingrid Potgieter

The purpose of this chapter

Learning outcomes

- 12.1 Introduction
- 12.2 Human resource management as a strategic partner
 - 12.2.1 The human resource function
 - 12.2.2 Human resource management and organisational effectiveness
 - 12.2.3 Who performs the human resource function?
- 12.3 Human resource planning
 - 12.3.1 Phase 1: Identify the work required by the organisation
 - 12.3.2 Phase 2: Human resource forecasting
 - 12.3.3 Phase 3: The human resource plan
- 12.4 Finding qualified talent

- 12.4.1 Recruiting
 - 12.4.2 Talent selection
- 12.5 Developing talent
 - 12.5.1 Human resource development (HRD)
 - 12.5.2 Development methods
 - 12.5.3 The danger of the 'shotgun' approach to development
 - 12.5.4 Performance appraisal
- 12.6 Retaining talent
 - 12.6.1 Retention factors
 - 12.6.2 Compensation of employee
 - 12.6.3 The amount of compensation
- 12.7 Motivating employees
 - 12.7.1 Approaches to motivation
 - 12.7.2 Employee motivational strategies
- 12.8 Implications of the new digital world of work on human resource management
- 12.9 Labour legislation that has an impact on the workplace
 - 12.9.1 The Constitution of the Republic of South Africa, 1996
 - 12.9.2 Laws affecting business activities
 - 12.9.3 The Labour Relations Act (No. 66 of 1995) (LRA)
 - 12.9.4 Communication: grievances and disciplinary aspects
 - 12.9.5 The Basic Conditions of Employment Act (No. 75 of 1997) (BCEA)
 - 12.9.6 The Employment Equity Act (No. 55 of 1998) (EEA)
 - 12.9.7 The Skills Development Act (No. 97 of 1998) (SDA)
 - 12.9.8 The Skills Development Levies Act (No. 9 of 1999)
 - 12.9.9 The National Qualifications Framework Act (No. 67 of 2008) (NQF)
 - 12.9.10 The Occupational Health and Safety Act (No. 85 of 1993) (OHSA)
 - 12.9.11 The Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) (COIDA)

- 12.9.12 The Unemployment Insurance Act (No. 63 of 2001) (UIA)
- 12.9.13 The Employment Services Act (No. 4 of 2014)
- 12.9.14 The Protection of Personal Information Act (No. 4 of 2013)
(POPIA)

12.10 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 13 Marketing management

Michael Cant and Ricardo Machado

The purpose of this chapter

Learning outcomes

13.1 Introduction

13.2 The evolution of marketing thought

13.2.1 Operation-oriented management

13.2.2 Sales-oriented management

13.2.3 Marketing-oriented management

13.2.4 Consumer-oriented management

13.2.5 The strategic approach to marketing

13.2.6 Relationship marketing

13.3 The marketing concept

13.3.1 The principle of profitability

13.3.2 The principle of consumer orientation

13.3.3 The principle of social responsibility

13.3.4 The principle of organisational integration

13.3.5 Merits of the marketing concept

- 13.4 Defining marketing
- 13.5 The components of the marketing process
- 13.6 Market research
 - 13.6.1 The need for information
 - 13.6.2 Marketing-research methodology
 - 13.6.3 Market forecasting
- 13.7 Consumer behaviour
 - 13.7.1 Determinants of consumer behaviour
 - 13.7.2 Consumer decision-making
- 13.8 Market segmentation
 - 13.8.1 The total-market approach (market aggregation)
 - 13.8.2 The market-segmentation approach
 - 13.8.3 Requirements for meaningful market segmentation
 - 13.8.4 Criteria for market segmentation
 - 13.8.5 Segment profiles
- 13.9 Target-market selection and positioning
- 13.10 The marketing instruments
- 13.11 Product decisions
 - 13.11.1 The product offering
 - 13.11.2 What is a product?
 - 13.11.3 Classification of consumer products
 - 13.11.4 Brand decisions
 - 13.11.5 Packaging decisions
 - 13.11.6 Product differentiation
 - 13.11.7 Product obsolescence
 - 13.11.8 Multi-product decisions
 - 13.11.9 New product decisions
 - 13.11.10 The nature of the product's life cycle

13.11.11 Marketing strategy during the product life cycle

13.12 Price decisions

13.12.1 The meaning of price

13.12.2 The price-determination process

13.12.3 Adaptations of the final price

13.13 Distribution decisions

13.13.1 Description of distribution

13.13.2 The choice of the distribution channel

13.13.3 Channel leadership

13.13.4 Market coverage

13.13.5 Physical distribution

13.14 Marketing communication decisions

13.14.1 The nature of marketing communication

13.14.2 Advertising

13.14.3 Personal selling

13.14.4 Direct marketing

13.14.5 Sales promotion

13.14.6 Publicity

13.14.7 Public relations

13.15 Customer service

13.15.1 Defining customer service

13.15.2 Who is the customer?

13.15.3 The importance of excellent customer service

13.15.4 The place of customer service in the marketing strategy

13.15.5 Managing customer expectations

13.16 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Chapter 14 Financial management

Johan Marx and Raphael Mpofu

The purpose of this chapter

Learning outcomes

- 14.1 Introduction
- 14.2 The financial function and financial management
- 14.3 Concepts in financial management
 - 14.3.1 The statement of financial position
 - 14.3.2 Capital
 - 14.3.3 Income
 - 14.3.4 Costs
 - 14.3.5 Profit
 - 14.3.6 The statement of financial performance
- 14.4 Objective and fundamental principles of financial management
 - 14.4.1 The risk–return principle
 - 14.4.2 The cost–benefit principle
 - 14.4.3 The time value of money principle
- 14.5 Cost–volume–profit relationships
- 14.6 Financial analysis, planning and control
 - 14.6.1 Financial analysis
 - 14.6.2 Financial planning and control
- 14.7 The time value of money
 - 14.7.1 The future value of a single amount
 - 14.7.2 Present value

- 14.7.3 Concluding remarks
 - 14.8 Asset management: The management of current assets
 - 14.8.1 The management of cash and marketable securities
 - 14.8.2 The management of debtors
 - 14.8.3 The management of stock (inventory)
 - 14.8.4 Concluding remarks
 - 14.9 Asset management: long-term investment decisions and capital budgeting
 - 14.9.1 The nature of capital investments
 - 14.9.2 The evaluation of investment projects
 - 14.9.3 Concluding remarks
 - 14.10 Financing
 - 14.10.1 Financial markets
 - 14.10.2 Short-term financing
 - 14.10.3 Concluding remarks
 - 14.11 Trade financing and supply chains
 - 14.12 Long-term financing
 - 14.12.1 Shareholders' interest
 - 14.12.2 Long-term debt
 - 14.12.3 Sources of financing for small businesses
 - 14.12.4 Concluding remarks
 - 14.13 The cost of capital
 - 14.13.1 Risk
 - 14.14 Summary
- Small business perspective
- Questions for discussion
- Multiple-choice questions
- References

Chapter 15 Purchasing and supply management

Hannie Badenhorst-Weiss and Orpha Cilliers

The purpose of this chapter

Learning outcomes

- 15.1 Introduction
- 15.2 The importance of the purchasing and supply function to the business
 - 15.2.1 Greatest expenditure for the business
 - 15.2.2 Inventory-holding
 - 15.2.3 Contributions to the marketing of products
- 15.3 The management task of the purchasing and supply manager
 - 15.3.1 Purchasing and supply planning
 - 15.3.2 Organising and leading the purchasing and supply function
 - 15.3.3 Control in the purchasing and supply function
- 15.4 Purchasing and supply process and activities
 - 15.4.1 The purchasing and supply process
 - 15.4.2 Quality decisions as a purchasing and supply activity
 - 15.4.3 Deciding on purchasing and supply quantities
 - 15.4.4 The selection and management of suppliers
 - 15.4.5 Pricing decisions
 - 15.4.6 Timing of purchases
- 15.5 Contemporary issues in purchasing and supply
 - 15.5.1 Information technology in supply chains
 - 15.5.2 Social responsibility and sustainability
- 15.6 Summary

Small business perspective

Questions for discussion

Multiple-choice questions

References

Index

PREFACE



This twelfth edition of *Introduction to Business Management* marks a milestone in introductory business management texts in South Africa as it is one of the few introductory business management texts that have shown consistent growth over an extended period. Since the publication of the first edition in 1984, nearly half a million students at many universities and other institutions have used *Introduction to Business Management* as the foundation on which to build their careers in the business world. This book focuses on the management of business organisations in the South African business environment. It describes how managers should manage resources and activities to enable organisations to operate as profitably as possible, thereby increasing the wealth of society and the country in general.

The twelfth edition offers many improvements in style, content and presentation to make the text even more effective and enjoyable. This edition includes substantial new and improved material. Each chapter commences with a case study that places the core elements in a practical perspective and integrates theory and practice. A small business perspective has also been added to each chapter. The elements that have contributed to the success of the book thus far have been retained and comments by students and academics were incorporated where possible. Post-covid implications for businesses have been added as well as the importance of technological developments, the changing nature of work and the impact of the Russian-Ukraine war on the economy and supply chains.

Chapters include challenges in the form of short case studies that require students to think critically about the concepts and their application. Key terms, multiple-choice questions and questions for discussion are included in each chapter to help students in their preparation for assignments and the examination.

The combined experience of the editors and authors further enhance the quality and the relevance of the text.

ACKNOWLEDGEMENTS

This book benefited from the ideas contributed by a wide range of colleagues who teach from it in a number of tertiary institutions. Their ideas and suggestions were extremely useful and were incorporated, where possible, in the layout and contents.

We continue to welcome constructive comments from colleagues at universities, as well as from managers in business practice, in an attempt to make future management education in South Africa even more relevant and meaningful.

We specifically want to cite the contributions of the following colleagues who contributed to the updating of certain chapters:

Prof J. Geldenhuys

The editors

Prof. B.J. Erasmus

Prof. J.W. Strydom

Prof. S. Rudansky-Kloppers

PART 1

THE BUSINESS WORLD AND THE PLACE OF BUSINESS MANAGEMENT



Chapter 1

The business world and business management

Peet Venter



The purpose of this chapter

This chapter discusses the role of business in society and explains how a business organisation in a market economy employs the various resources of a nation (natural resources, human resources, financial resources, entrepreneurial skills) in order to satisfy the need for products and services. The chapter gives an overview of the prevailing economic systems in the world and explains how the business organisation functions in a market economy.



Learning outcomes

On completion of this chapter, you should be able to:

- explain the role business plays in making products and services available to society
- describe the needs of society and how a business organisation satisfies those needs in a market economy
- distinguish between the world's three main economic systems
- explain the interface between a business organisation and a market economy
- describe the nature and purpose of business management as a science, where the enabling factors, methods and principles of the business are studied to ensure the

efficient functioning of a business organisation

- comment on the development of business management as a science
- distinguish between and comment on the different management functions.

1.1 Introduction

In a market economy, the business world can be seen as a complex system that involves transforming resources into products and services. These products and services must meet the **needs** of people in exchange for a profit. This description of business emphasises four different elements:

- human activities
- production
- exchange
- profit.

These elements are discussed in detail in Section 1.2, but first consider the case study below. As the case study illustrates, the **profit** of a business is dependent on its ability to efficiently deliver goods and services that society needs. However, where the management of the organisation fails, and it is further influenced by players and factors outside of its direct control, such as the COVID-19 pandemic, it can lead to disastrous consequences. Businesses also have to trade off the demands of divergent **stakeholders**, such as employees, government, regulators and suppliers to strive for **sustainability** and the best interests of the society they serve.



CASE STUDY: South African Airways: can it survive the nose-dive?

Even before the COVID-19 pandemic hit the airline industry like a ton of bricks, South African Airways (SAA) was already on its knees. By 2020, it did not have enough cash to pay staff or keep its planes in the air for much longer, and the South African government was scrambling to borrow R2 billion to keep it going. SAA was placed in business rescue in an effort to revive the failing business. This spectacular implosion has wreaked a lot of damage, particularly on South African taxpayers, who have had to contribute R16.5 billion in taxpayer money on bailouts to SAA over the past decade. On top of that, last year government committed to settle more than R9 billion in debts that SAA can't afford to pay back. To add to its woes, SAA may have suffered a R9 billion loss in the 2019 financial year, meaning it lost R930 for every passenger transported. But, the real extent of SAA's losses and its debts isn't clear, as the airline has not reported results since 2017.

In 2011, SAA made a profit, so the question is how it ended up in this mess. There are several reasons for its rapid decline, a few of which are outlined below.

- Increasing competition caused SAA and subsidiary Mango to lose its dominant position to new competitors, such as FlySafair and Ethiopian Airlines. In its efforts to incentivise travel agents, SAA overstepped the

legal boundaries of industry competition and was ordered to pay competitors damages of more than R1,2 billion.

- Political interference during the five-year SAA chairmanship of Dudu Myeni, a close friend of former president Jacob Zuma, led to direct losses for the airline. For example, in 2015, the controversial Gupta family influenced SAA into relinquishing the lucrative Mumbai to Johannesburg route to Indian airline Jet Airways.
- Poor strategic decision-making saw SAA spending billions on a range of Airbus A340 planes, a key pitfall, as they are not well-suited for the challenges of long-range operations from SAA's 'hot and high' hub near Johannesburg. In addition, as fuel prices rose, this aircraft was less capable than the aircraft used by its competitors.
- The weak Rand also contributed to massive increases in SAA's fuel bill, as South Africa imports most of its fuel. This problem has been exacerbated by fuel shortages following the Russian invasion of Ukraine.
- The massive burden of having to service debts of at least R17 billion, means that SAA does not have the cash flow to compete on price, or improve its service.
- Leadership turmoil saw SAA without a CEO in 2019, after five CEOs came and went in the preceding decade.

The last straw was when COVID-19-related lockdowns caused widespread travel bans, which led to airlines worldwide being forced to take on

more debt and to shed jobs in an effort to survive. In 2022, the future of SAA was uncertain as media reports speculated that the carrier was facing liquidation due to delays in the conclusion of the proposed strategic equity partnership (SEP) transaction with Takatso Consortium. While the deal (reportedly for a capital injection of R3 billion) had been concluded in February 2022, it was awaiting approval by all of the relevant regulatory bodies and was widely seen as a 'new lease on life' for SAA.

Sources: Adapted from: Wilson, N. 2022. *New wings for SAA as Takatso Consortium sale confirmed*. TimesLive. Available at: <https://www.timeslive.co.za/sunday-times/business/business/2022-02-24-new-wings-for-saa-as-takatso-consortium-sale-confirmed/>; Wasserman, H. 2020. *EXPLAINER: How SAA landed in such a mess*. Business Insider SA. Available at: <https://www.businessinsider.co.za/what-happened-at-saa-2020-1>.

1.2 The role of business in society

The business world is a complex system of individuals and business organisations that, in a market economy, involves the activity of transforming resources into products and services in order to meet people's needs. These products and services are offered to the market in exchange for profit. This description of business emphasises four different elements:

- Business involves human activities. Business organisations are managed by people. While businesses may own property, machines and money, these are all managed or operated by

people.

- Business involves production. Production is the **transformation** of certain **resources** into products and services, as illustrated in [Figure 1.1](#). For example, the conversion of flour, sugar and butter into bread, or the conversion of bricks, sand, cement, wood and steel into a house. Services are also produced. For example, in a hospital, beds and medicine are converted into a health service, and airlines transports passengers to their required destinations, so the passengers become part of the transformation process.
- Business involves exchange. Businesses produce products and services, not for their own use, but to exchange for money or for other products and services.
- Business involves profit. Few individuals or business organisations can continue producing products and services without earning a profit. Profit is the reward for meeting people's needs, enabling businesses to pay for resources and to make a living. However, profit has to be earned in a way that is fair and sustainable. It is for this reason, as in the case study, that the SAA board finds itself in the difficult position of trying to turn around a business facing challenges on many fronts.

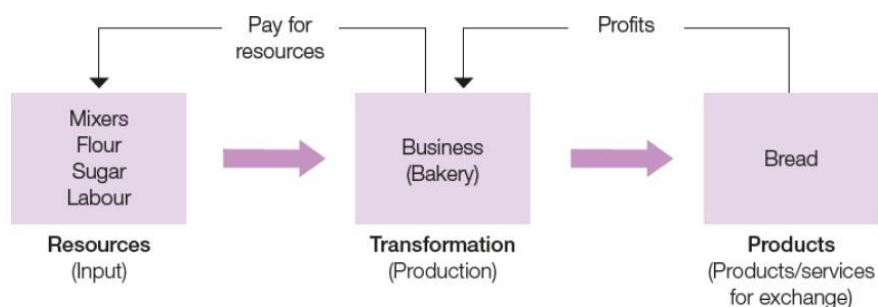


Figure 1.1 How entrepreneurs transform a nation's resources into products and services

Some businesses predominantly produce tangible products such as bread, cars, houses or bicycles. Other businesses

predominantly produce services such as entertainment, communication, insurance or transport.

Business is the means by which society endeavours to satisfy its needs and improve its standard of living by creating wealth. At the heart of all business activities are entrepreneurs, who start new ventures and thereby create jobs, economic growth and, hopefully, prosperity. The business world was not invented. It is the result of activities related to meeting the needs of people in a market economy.

The most important characteristic of the business world in the developed countries of the West and Asia is the freedom of individuals to establish any business of their choice and to produce, within limits, any product or service the market requires. This system, in which individuals decide what to produce, how to produce it and at which price to sell their product, is called a **market economy** (or **market system**). This is the prevailing economic system in South Africa.

The market economy is a complex system comprising various types of small and large business organisations that collectively mobilise a country's resources to satisfy the needs of its inhabitants. Together, these businesses form **industries**. [Figure 1.2](#) shows the composition of the South African business world in terms of major industry sectors and their contribution to the economy.

The business world or economic structure of South Africa resembles that of many industrialised countries, with a formal and informal sector. In the **formal sector**, large businesses such as Standard Bank, Naspers, Vodacom, Anglo American, Tiger Brands and many other large public corporations – about 400 of which are listed on the Johannesburg Securities Exchange (JSE) – are responsible for most of South Africa's economic activity (the JSE is sometimes referred to as the Johannesburg Stock Exchange). As market economies develop, they tend to become less dependent on primary economic activities like mining and

agriculture and more dependent on services. In 1920, for example, agriculture and mining combined contributed about 37 per cent to the gross national product (GNP), compared to the 32 per cent contributed by the service sector. As we can see in Figure 1.2, in 2022 the combined services sector contributed more than 50 per cent of the GDP, with the combined contribution of agriculture and mining shrinking to 8 per cent.

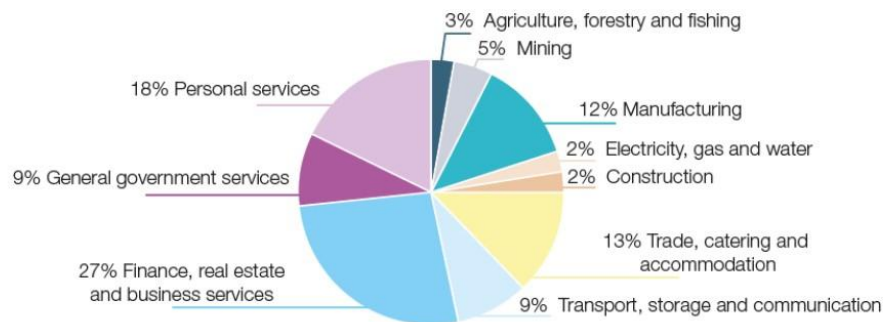


Figure 1.2 The composition of the South African business world in terms of sector contribution to GDP¹

Source: Statistics South Africa. 2022. *Gross Domestic Product: Second quarter 2022*. Statistical Release P0441.

Available at:

<https://www.statssa.gov.za/publications/P0441/P04412ndQuarter2022.pdf>.

Large businesses in South Africa contribute to about 68 per cent of the country's formal economic activity as reflected by turnover, while small, medium and micro-enterprises (SMMEs), which are mostly family or individually owned, contribute to about 32 per cent.² Many micro-enterprises form part of the so-called **informal sector**.³ They are not part of the formal economy because they are not registered, and many people involved in these enterprises live primarily on a subsistence or survival basis. Moreover, such businesses often put pressure on the infrastructure of inner-city areas, as due to their informal nature

they do not contribute to rates and taxes. While estimates differ due to the difficulties of collecting data about the informal economy, one source estimates that these businesses contribute approximately 18 per cent of the annual GDP, and employ about 3 million workers.⁴

The variety of needs in a country determines the complexity of its business environment. In the developed countries, businesses are the primary source of products, services and employment. [Figure 1.3](#) shows the importance of the South African business world in providing employment in South Africa, with the formal sector providing over 50 per cent of jobs. However, it is also clear that informal businesses, farms and private households are important providers of employment in a developing market economy. The high unemployment rate in South Africa of approximately 28 per cent in 2022 and the 3,6 million ‘discouraged work seekers’ is of great concern, as it suggests that the prevalent institutional arrangements and economic growth rate are not supporting the establishment and growth of businesses.

Business creates wealth, is a catalyst for economic growth, and is credited with bringing about the high standard of living in developed countries. For example, consider the role business has played in the United States. In the space of two centuries, the United States went from being a relatively undeveloped nation to a leading industrial nation, which at that time owned nearly 40 per cent of the world’s wealth with only 6 per cent of the world’s population. Adopting a more market- and business-oriented approach has also been of great economic benefit to emerging economies such as China and India. In China, for example, the gross national income (GNI) per capita⁵ grew from approximately US\$1 100 in 2002 to US\$11 890 in 2021 – a growth of almost 1 000 per cent in 19 years.⁶

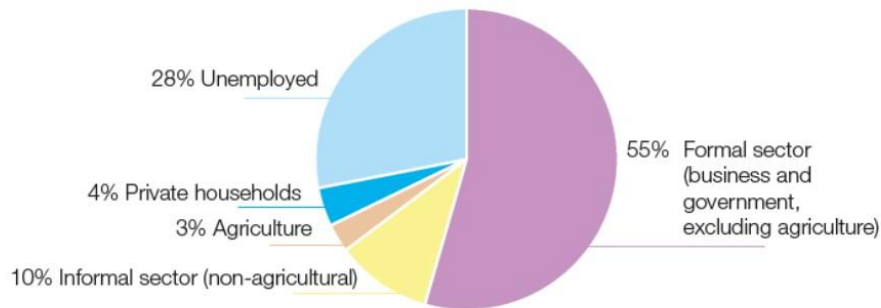


Figure 1.3 Sources of employment

Source: Statistics South Africa. 2022. *Quarterly Labour Force Survey. Second Quarter 2022*. Statistical Release P0211. Available at:

<https://www.statssa.gov.za/publications/P0211/P02112ndQuarter2022.pdf>.

Business also serves the community indirectly by means of technological innovation, research and development, and improvements to infrastructure. It plays a crucial role in supporting, in various ways, education, the development of human resources, the arts, conservation, sport and other activities that improve the quality of life of a community.

The business world and society both depend on and influence each other. This is the core of sustainability — the ability of a business to survive and prosper over a long period of time. If a business behaves in a way that allows its stakeholders (such as the communities and environment it operates in) to benefit too, in exchange for a fair profit, it has a better chance of surviving in the long term. However, practices that strive to ensure excessive short-term profits and that are detrimental to stakeholders will most often not be sustainable and will be to the detriment of the business. In South Africa, we have seen the growth of **corporate social responsibility**, and the voluntary compliance of businesses with practices that are sustainable. This is discussed in more detail in Chapter 5.

At the heart of the business world is the entrepreneur or businessperson. In the pursuit of profit, entrepreneurs constantly search for new ideas, new products and new technologies. In so doing, they initiate innovation and bring about change by virtue of their decisions on investment, production and employment, influencing not only the state of the economy, but also the prosperity of whole communities. Of late, we have seen the emergence of social entrepreneurship with entrepreneurs that develop their businesses around solving humanity's problems.

Consider, for example, local social entrepreneur Sarah Collins, inventor of the Wonderbag, a South African-made heat retention cooker. Made from traditional *shweshwe* African-print fabric, the Wonderbag resembles a beanbag filled with repurposed foam, and is used to keep a boiling pot cooking after it has been taken off the stove or fire. This environmentally-friendly product is now sold in 52 countries, and has more than 2 million users. The Wonderbag is manufactured in Tongaat, KwaZulu-Natal, employs local women and is then sold to South Africans and exported to countries like the United States and Australia. There are also satellite manufacturing sites in East Africa, West Africa and in Turkey. According to Collins, the Wonderbag has led to 10 000 entrepreneurs starting ventures such as selling Wonderbags or catering businesses.⁷ In addition, the Wonderbag is used to create a social impact. For example, during the recent war in Ukraine, 2 600 Wonderbags were donated to Ukrainian families with limited access to energy.

Conversely, society exerts its influence on the business world in a number of ways. If businesses fail to abide by the expectations and desires of the community, regulations and legislation to curb or control such practices can be instituted or enforced. In South Africa, we have seen anti-competitive behaviour in several industries, such as the cement industry, the bread industry and the construction industry in the past few years. Colluding with other producers to allocate markets, fix

prices and share information has only one purpose: to keep prices as high as possible. This kind of behaviour is to the detriment of smaller producers and to consumers, especially people living under the breadline, and is punishable by severe fines by the Competition Commission, a government body instituted to ensure fair competition. The Consumer Protection Act (No. 68 of 2008) also aims, among many other objectives, to prohibit unfair business practices and to promote a consistent legislative and enforcement framework to protect consumers.

However, the legal route is not the only route available to society. By means of stakeholder activism, businesses can be influenced to behave more responsibly. In 2021, a South African court halted oil giant Shell's seismic testing for oil and gas along the country's eastern coastline, pending a final ruling. This followed months of aggressive campaigning by environmentalists, who feared that the sound blasting would harm marine life, and local communities, who in turn felt that their customary rights to the land and fishing had not been respected. The court found that Shell's right to explore the waters near the Wild Coast 'was awarded on the basis of a substantially flawed consultation process'.⁸ The e-toll system in Gauteng provides another example of the effect of societal pressure, such as the Organisation for Undoing Tax Abuse (OUTA), a pressure group which has fought on all fronts (legal and otherwise) to prevent e-tolling in Gauteng. OUTA has expanded its activities to address other perceived tax abuses such as corruption in state-owned enterprises, and describes itself as a 'civil activist group'.⁹

The attitude of society towards the business world is by no means consistent because in changing environments the community will have different expectations of the business world. If the business world fails to respond to the expectations of the community, the attitude of the community towards the business world is likely to change. Consider, for example, the issue of equity in South African organisations. When South Africa became

a democracy in 1994, businesses were called on to offer redress to previously disadvantaged individuals (PDIs). These programmes required, *inter alia*, the appointment of PDIs, increasing PDI shareholding in businesses and preferential procurement from black-owned businesses. However, because businesses were slow to respond to this call, government instituted legislation that forces the business world to transform its organisations so that PDIs are included at all levels. The Employment Equity Act (No. 55 of 1998) and the Broad-Based Black Economic Empowerment Act (No. 53 of 2003) are examples of society's response to the exclusion from business of PDIs, women and people with disabilities. (See Chapter 12 for a more in-depth discussion on the South African labour legislation framework.)

Over the years, most Western countries have come to regard the business sector as a valuable social institution because it has helped to realise society's needs and also to raise the standard of living. In the closing decades of the 20th century, however, most Western nations realised that a high standard of living amid a deteriorating physical environment and inadequate social progress is not sustainable. The business world is thus under continuous and often increasing pressure to behave in ways that are sustainable. There are several themes related to sustainability. In this chapter we discuss five themes, namely social responsibility, employment equity, business ethics, consumerism and environmental sustainability.

The **social responsibility** of business is a concept that originated in media revelations of malpractice by businesses and the resultant insistence of society on restricting such malpractice through regulation. Historically, the social responsibility of a business has been measured towards employment opportunities and by its contribution to the economy. But, while these factors remain important, many other factors are now included in assessing the social performance of a business. Businesses are nowadays under more pressure than ever to behave as

responsible citizens (leading to the notion of corporate citizenship). Their role goes beyond financial success to include, *inter alia*, the provision of a responsible and safe workplace, the provision of housing, concern about health issues, involvement with community issues, environmental awareness and the empowerment of previously disadvantaged individuals, both economically and managerially. Social responsibility is discussed in more detail in Chapter 5. Businesses often contribute voluntarily and directly to social causes and community upliftment by way of **corporate social investment**.

Employment equity is the notion that the composition of the workforce at all levels should reflect the composition of the community. It aims to create equal employment opportunities for all and redress the inequalities of the past by ensuring that workforces are composed in roughly the same proportions as the groups that make up the population as a whole. In South Africa, the Employment Equity Act became law in 1998. The stated intention of the Act is to eliminate unfair discrimination, ensure employment equity and achieve a diverse workplace that is broadly representative of the country's demographic realities. The inclusion of previously disadvantaged individuals and other designated groups (such as people living with physical disabilities) at management level is of crucial importance to South Africa's economy to ensure that the government's economic growth targets can be achieved.

The South African government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA) strategy aimed for an economic growth target of 4,5 per cent per year for 2005 to 2009, and 6 per cent per year thereafter. While South Africa's GDP initially grew in line with the growth targets, it followed the rest of the world into recession following the 2008 financial crisis. By June 2009, South Africa's GDP had decreased by an annualised rate of 6,4 per cent and, while growth has recovered somewhat, it has remained at levels not nearly high enough to achieve national growth targets; for example, only 0,1 per cent growth was

achieved in 2019, followed by 6,4 per cent contraction in 2020, mainly due to COVID-19-related national lockdowns and bans. In 2021, the economy clawed back 4,9 per cent, which was not enough to restore it to pre-COVID-19 levels.¹⁰ For the South African economy to grow at the much-needed level of 6 per cent or higher, there must be enough skilled managers to drive the economy. It is widely recognised that even a moderate real economic growth rate of 2,7 per cent per year will require an additional 100 000 managers each year for the foreseeable future.

Since the traditional source of managers (white males) has been decreasing in relative terms, most of the managers that are required will have to come from black candidates. Since 1994, there has been a steady increase in the number of black managers. Despite this growth, white managers – especially white males – remain over-represented in management structures. However, these levels are changing steadily. According to the Commission for Employment Equity, in South Africa in 2020, 24,6 per cent of senior managers were black (up from 9 per cent in 2001) and 52,5 per cent were white (down from 81 per cent in 2001). In 2020, females of all races accounted for only 35 per cent of senior managers (up from 20 per cent in 2001, but down from 39 per cent in 2017). Of professionally qualified employees in 2017, 47 per cent were black (up from 33 per cent in 2001) and 32 per cent were white (down from 56 per cent in 2001). Females represented 47 per cent of this category (up from 38 per cent in 2003).¹¹



CASE STUDY: The status of broad-based BEE in South Africa

In 2021, Sanlam launched its Sanlam Gauge Report, a comprehensive overview and assessment of the status of broad-based black economic empowerment in South Africa conducted in partnership with Business Times and Sunday Times. It assessed BBBEE across a number of dimensions, measuring sectoral performance against the relative weight of the dimension (the 'target'). The key findings are outlined below.

- **Ownership:** South African companies have achieved an average of 85,6% of their targets. While the ownership element seems to be successful, it has become a contentious issue because of the notion that it only sought to empower a handful of political elites connected to the ruling party. The sentiment is the policy needs an overhaul and business leaders have called on government to go back to the drawing board, especially following the decimation of the nation's economy by COVID-19.
- **Management control:** This is the aspect of BBBEE where companies performed the worst, with only 57% of targets achieved. While there are several reasons cited for this, such as the slow staff turnover at senior management level, lack of succession planning, prejudice, and lack of management skills and experience, a 'big stick approach' by

government to enforce compliance is looming.

- Skills development: In this important aspect, about 77% of targets were achieved. While it is a concern that many companies are not doing enough to develop skills, the harsh economic conditions have also played a role in companies not fully utilising their training and development spend.
- Enterprise & supplier development: This is the most significant element and carries the highest weighting in the scorecard, because of the importance of a flourishing small business sector to the economy as a whole. Despite the relatively high overall achievement (85%) in this dimension, all sectors except for defence are performing at less than their sectoral weighting, and some observers claim that the high rating is inherently flawed, often relating to old initiatives and outstanding loans still on the books rather than to real development efforts.
- Socio-economic development: With 101,57% of targets achieved, this aspect is by far the highest-scoring dimension on the BBBEE scorecard. One possible reason is that it is relatively easy to attain points here by simply giving money to 'good causes'. However, many companies are taking this aspect very seriously and direct their spending more and more towards South Africa's triple challenge of inequality, unemployment and poverty.

Source: Sanlam (in partnership with Sunday Times and Business Times). May 2021. *Sanlam*

Gauge Report. Available at:

<https://www.intellidex.co.za/reports/sanlam-gauge-report/>.

Business ethics is a concept that is closely related to social responsibility, but where social responsibility focuses on the organisation, business ethics focuses specifically on the ethical behaviour of managers and executives in the business world. Managers, in particular, are expected to maintain high ethical standards, as they are often in positions where they can abuse their power, such as awarding contracts. To make business ethics practical, many organisations have codes of business conduct to provide clear guidelines to managers on what is ethical and what is not. One common rule is that no business gifts may be accepted, or that all gifts over a certain value have to be declared. Chapter 5 will focus on social responsibility and business ethics.

While there are business concepts regulating the business environment, its employees and society as a whole, specific reference should be made to the concept of consumerism.

Consumerism is a social force that protects consumers against unsafe products and malpractice by exerting moral and economic pressure on businesses. In South Africa, the South African National Consumer Union acts as a watchdog for consumers and many avenues for consumer protection are already in place, while more legislation has also been instituted to protect consumers. Some observers have suggested that the Consumer Protection Act (No. 68 of 2008), signed into law in 2011, makes South African consumers among the best-protected consumers in the world. It forces the producers of goods and services to take full responsibility for ensuring that their products and services comply with standards, and the Act enforces certain minimum warranties and indemnities to protect the buyers of goods and services.

Society has also become more concerned about **environmental sustainability** and, increasingly, stakeholder activism and legislation are forcing businesses to take the environment into consideration. Businesses are frequently responsible for air, water and soil pollution, and for the resultant detrimental effects on fauna and flora. Citizens therefore often form pressure groups to protect the environment. In 2022, Just Stop Oil, a coalition of groups working together to ensure that the government commits to ending all new licenses and consents for the exploration, development and production of fossil fuels in the United Kingdom, held hundreds of protests that involved, *inter alia*, blocking oil terminals, spraying orange paint on four buildings in Central London, and occupying Westminster, the seat of British Government, every day in October.¹²

The business world is so interconnected with society that it may be defined as a process that uses a country's means of production to produce products and services to satisfy the needs of people. The primary purpose of business in a free-market system is, therefore, to make a profit while satisfying the needs of the people. A brief overview of the needs of communities, and of the means of satisfying these needs, is given below to explain not only the purpose of business in a market system, but also the extent of the field of **business management**, which is the focus of this book.

1.3 Business as the satisfaction of human needs

At its core, business is about obtaining resources to produce products and services that satisfy human needs in exchange for payment. This section explores how businesses reconcile the unlimited human needs with the limited resources at its disposal.

1.3.1 The multiplicity of human needs

The continued existence of humans depends upon the constant satisfaction of numerous needs, both physical and psychological. The work that every member of a community performs is directly or indirectly related to need satisfaction. Even in the most remote and uninhabited areas, certain products and services are needed.

Needs may be very simple and few, as in the case of a rural and underdeveloped community in which individuals or families, with the help of nature, find the resources necessary to satisfy a simple need structure. For example, the traditional lifestyle of the San people of the Kalahari depends on the satisfaction of the most basic necessities for survival. However, in highly industrialised communities, needs may be numerous and may therefore require large and complex organisations to satisfy their needs. A need may have a physical, psychological or social origin, but no matter which form it takes, humans will strive to satisfy their needs. The number of identifiable needs is infinite. Some needs, particularly those that are physical, are related to basic necessities, such as the satisfaction of hunger and thirst. These needs have to be satisfied for the sake of survival. Other needs, particularly those that are psychological, relate to things that make life more pleasant, but that are not essential to survival. These needs include the need for holidays, cell phones, dishwashers, swimming pools, luxury cars, and other similar products and services.

Basic physical and psychological needs may also overlap. For example, people do not wear clothes merely for warmth and protection, but also to be fashionable. Some people enjoy expensive delicacies and fine wines in luxurious restaurants and, in this way, simultaneously satisfy survival needs and psychological needs.

Abraham Maslow (1908–1970), an American clinical psychologist, explained variable and unlimited human needs by means of a hierarchy of needs. According to Maslow, human needs range, in a definite order, from the most essential for

survival to the least necessary. The left-hand side of [Figure 1.4](#) shows **Maslow's hierarchy of needs** (see Section 12.7.1 in Chapter 12). It is clear from [Figure 1.4](#) that the needs hierarchy is composed in such a way that the order of importance ranges from basic physical needs, which have to be satisfied for survival, to psychological needs, which feature on the higher levels of the hierarchy. Because humans are social beings who live in communities, they also have collective needs, such as protection and education. An individual, a family or a community first satisfies the most urgent needs, and then, when this has been done, moves up to the next level until the higher psychological levels are reached. With changing circumstances, individuals not only desire more possessions, but also continually want newer and better products and services. For example, cellular telephones revolutionised personal communications, but smart phones and tablets offered even more functionality. Today, personal communications have evolved to include smart watches and sophisticated applications (apps) that offer a myriad of communication, productivity and entertainment services. As society satisfies one need, a new one comes into existence, with no end to the constant increase in the number of human needs.



Figure 1.4 The needs and resources of society

The COVID-19 pandemic and its effects influenced the needs of South African households. In 2022, following the pandemic and the resulting government lockdowns, South Africans were facing upward pressure on food, fuel and electricity prices that adversely impacted all households. As might be expected, household income plays a large role in determining the needs of

consumers. Figure 1.5 shows that the lowest income groups spend more than 50 per cent of their income on food, while the highest income group spends only about 11 per cent. Higher income groups spend proportionally much more on transport (which includes vehicle sales and costs), and on miscellaneous products and services, which include personal care, insurance and financial services.

1.3.2 Society's limited resources

If the multiple and unlimited needs of humans are considered, especially in highly developed societies, it is clear that there are only limited resources available to satisfy all their needs.

Although Western countries, most notably the United States, possess very impressive means of production, even if it does not have unlimited resources. Water is a key resource to individuals and businesses alike, yet water scarcity is a significant problem facing both South Africa and the world. Similarly, the inability of Eskom to meet the growing demand for electricity in South Africa has led to load shedding and resulted in severe economic losses for South Africa, losses that a developing economy can ill afford.

A country has only a certain number of people in its workforce to operate a certain number of machines, and a certain number of factories, hospitals and offices to produce a certain quantity of products and services. In other words, the resources of any community are scarce, and can easily be exceeded by its needs. Resources are therefore the basic inputs in the production of products and services, and they are also known as production factors.

Figure 1.4 shows the resources that society possesses in limited quantities and which it uses to satisfy its needs: natural resources, human resources, capital and entrepreneurship.

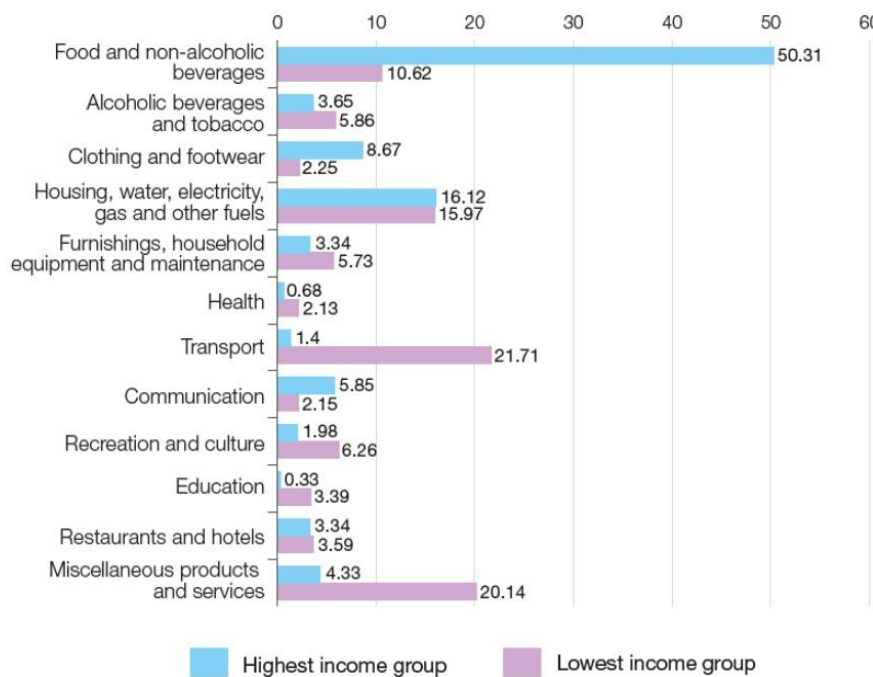


Figure 1.5 Household expenditure patterns in South Africa (% of income)

Source: BusinessTech. April 2022. *South African households are heading for trouble*. Available at: <https://businesstech.co.za/news/finance/571780/south-african-households-are-heading-for-trouble>.

1.3.2.1 Natural resources

Natural resources, also known as the production factor of land, include agricultural land, industrial sites, residential stands, minerals and metals, forests, water and all such resources that nature puts at the disposal of humankind. The most important characteristic of natural resources is that their supply cannot be increased. In other words, the natural resources any one country possesses is given, and is therefore scarce. Moreover, human effort is usually necessary to process these resources into need-satisfying products – for example, in the transformation of forests into timber and paper or, in the case of the airline industry, the

refining of oil to produce the jet fuels required by aeroplanes. In the process, natural resources are depleted and are at risk of becoming even scarcer.



CASE STUDY: Eskom: Struggling to keep the lights on

In 2022, South Africans had to get to grips yet again with load shedding as Eskom struggled to meet the electricity need of the country. The damage of load shedding to the economy is massive, with Alexforbes chief economist Isaah Mhlanga estimates that Eskom's prolonged stage 6 load shedding has already caused significant damage to the country's economy, with over R4 billion wiped from the GDP for each day it continues. Mhlanga added that '... the economic impact is not linear, it can rise exponentially, and the impact accumulates quickly. The point is that the cost is enormous. It's difficult to imagine serious investors considering South Africa as an investment destination.'

Dr Francois Stofberg, senior economist at the Efficient Group, has previously estimated that the country's economy is between 8% and 10% smaller than it could have been if we were not plagued by Eskom's inefficiencies and ongoing load shedding. In today's terms, after Statistics South Africa adjusted the country's gross domestic product (GDP) figures in 2021, the economy would, therefore, have been between R360 billion and R450 billion larger, after adjusting for things such as inflation, he said.

'What is even worse is if we consider the one million lost job opportunities resulting from having a smaller economy.'

Sources: Adapted from: BusinessTech. 22 June 2018. *Stage 6 load shedding costs South Africa over R4 billion a day: economist*. BusinessTech (online). Available at:
<https://businesstech.co.za/news/energy/602056/stage-6-load-shedding-costs-south-africa-over-r4-billion-a-day-economist/>.

1.3.2.2 Human resources

Human resources, also known as the production factor of labour, include the physical and mental talents and skills of people employed to create products and services. People receive wages for their labour. The size of the labour force of any country and, therefore, the availability of that production factor, is determined by, among other things, the size of the population, the level of its education and training, the proportion of women in the labour force and the retirement age. For the manufacturing processes of a country to be of any value, the country's labour force has to be trained for certain periods and to certain levels of skill to be able to produce the products and services required. Training periods differ depending on the skill being learnt. For example, the training period of a flight attendant is considerably shorter than the training period of a pilot. The combination of human skills is of particular importance, for without this combination, natural and financial resources cannot be utilised productively. In South Africa, there is an oversupply of unskilled labour and a shortage of certain types of highly skilled labour.

1.3.2.3 Capital

Capital is represented by the buildings, machinery, cash registers, computers and other products, produced not for final human consumption, but for making possible the further production of final consumer products. Capital products usually have a long working life – for example, office buildings, factories, machinery and other equipment may be used over and over in the production process. In the airline industry, capital usually has an exceptionally long working life, but also comes at a very high price. The reason for the scarcity factor of capital is that a community takes years to build up its stock of capital. Every year, it spends a certain amount on roads, bridges, mine shafts, factories and shopping centres, of which there is always a shortage. The owners or suppliers of capital are usually remunerated in the form of interest or rent.

1.3.2.4 Entrepreneurship

Entrepreneurship is the fourth factor of production. It refers to the collective capacity of entrepreneurs, who are those individuals who accept the risks involved in providing products and services for their society. Entrepreneurs like Lekau Sehoana (see box below) take the risk of providing their knowledge and capital in setting up a business with the prospect of being rewarded with significant profits if they are successful. On the other hand, if they do not succeed, there is much to lose. The production factor of entrepreneurship is scarce in that not everybody in a community is prepared to take the risks that are inevitable when providing new products or services, or has the ability to manage an organisation successfully. Although the contemporary focus on entrepreneurship is mainly on small and medium businesses, entrepreneurs are not limited to these. A large or corporate business is also a place for entrepreneurship. (See Chapter 2 for a more detailed discussion on entrepreneurs

and entrepreneurship.)



CASE STUDY: Poverty sparks innovation: The story of Drip Footwear

The story of Drip Footwear dates to 2003, when Lekau Sehoana had to make the most out of what he had, which sparked innovation and creativity. Drip Footwear offers a brand identity that originates from collaboration between customers and designers. Lekau is the founder and CEO of Drip Footwear, a fast-growing sneaker brand in South Africa. Today, at 33 years, he has built a name for himself in the sneaker industry.

His entrepreneurial journey started at a young age when he was faced with some of life's challenges. Like many South Africans, Lekau grew up in the informal settlement of Ivory Park and recalls a specific day of a school function and not having any shoes to wear. His grandmother taught him to sew and, at home, he saw an old torn sneaker and redesigned it for the school function, using denim. That sneaker became a local hit and led him to making an entry into the shoe-making business and exchanging pain for profit for the next five years of his high school life. A few years later, Drip was born. The concept behind the name and branding of this footwear brand comes from the modern-day usage of words. Drip in a literal sense means drops of liquid. However, in urban street culture it means looking nice, having high fashion sense, *ukotini* style or being highly fashionable. Urban street

language is combined with bold designs, versatility and a collaborative culture. Drip is one of the most successful and fastest-growing sneaker brands in South Africa and continues on its growth trajectory by partnering with big brands and some of the biggest celebrities. Drip announced their partnership with BMW and have changed their slogan from 'The Township Dream' to 'Live Your Great'. Their sneakers will be available for sale at the BMW Midrand dealership in the form of a pop-up store.

Lekau has journeyed on the entrepreneurial path and faced a number of challenges. After school, he tried working in farming, and then invested money in a restaurant and failed. And then he returned to the drawing board and revisited his passion for sneakers. After toying with the idea for a while, Lekau decided to start a sneaker brand. Following the review of the prototyping stages, the Drip Footwear sneaker brand was established in 2019. The first consignment Lekau received had 600 pairs of shoes. Jokingly, Lekau describes the moment by saying that he had never seen so many pairs of shoes and they were all his. On top of this excitement, Lekau worried about how or where to sell the shoes.

Lekau told Drum Magazine 'Living Your Great means making the most of what we already have, be it studying with a candle and producing a distinction, or playing soccer in a gravel field until you make it in the big leagues'.

'Our brand is the epitome of Living Your Great, from the informal settlements of Ivory Park came a sneaker brand that employs and builds the

South African economy today. Had I not realized the greatness within me, we would not have Drip today. Look inside you, there's a fire burning, now go and get it. Live Your Great.'

Today, he is a businessman that is proud of his rags to riches story and he believes in giving back to the community that supported him when he had nothing. He is in the process of building DripEd, a Drip Education centre in Ivory Park where he grew up.

In the early days, Drip Footwear's success was mainly a product of social media sensation. Of course, the product itself was and is still brilliant. However, the support from friends and the online community had the biggest impact. Thanks to this support, Drip Footwear has become a multimillion Rand brand and is franchising across the country. In the short time since he launched Drip Footwear he has already worked wonders. With his 20 stores (and counting) across the country, he employs just over 300 South Africans.

Sources: Compiled from:

<https://dripsa.co.za/about-us/>; Drip Footwear. n.d.

About Drip. Available at:

<https://dripsa.co.za/about-us/>; Gitari, K. 2022. *Once Shoeless, Lekau Sohoana Now Heads a*

Multimillion-Rand Sneaker Brand. Available at:

<https://africanvibes.com/entrepreneur-spotlight-lekau-sehoana-went-from-having-no-shoes-to-building-a-multimillion-rand-sneaker-brand-in-south-africa/>; Dayile, Q. 2021. 'Drip footwear founder Lekau Sehoana on his international dream', *Drum*. Available at:

<https://www.sn124.com/drum/celebs/news/drip-footwear-founder-lekau-sehoana-on-his-international-dream-20210902> .

1.3.3 Need satisfaction: a cycle

In order to satisfy the needs of society, entrepreneurs have to utilise scarce resources in certain combinations to produce products and services. Economic value is created during the production process by combining production factors in such a way that final products are produced for consumers. A nation's survival depends on the satisfaction of its people's needs. Striving for need satisfaction with the limited resources available is an incentive for economic progress.

Given its unlimited needs but limited resources, society is confronted with the fundamental **economic problem**: how to ensure the highest possible satisfaction of needs with these scarce resources. This is also known as the **economic principle**. Society cannot always get what it wants, so it must choose how it will use its scarce resources to the maximum effect to satisfy its needs. In short, it has to decide about solving the following economic issues:

- Which products and services should be produced, and in what quantities? (How many capital products should be produced? How many consumer products should be produced? Should railways or trucks, houses or flats be built? If flats are chosen, how many should be built?)
- Who should produce these products? (Should the state or private individuals take charge of production? Or should this responsibility be shared, as in the case of South Africa's health industry?)
- How should these products and services be produced, and which resources should be used? (There are various methods of production and types of resources that should be

considered. For example, should a production-line method be chosen? Should a labour-intensive approach be used?)

- For whom are these products and services produced? (Will the products cater largely for the needs of those with wealth or for people living in poverty? Will services be aimed at business clients or families?)

The answers to these economic issues are given by the community. The community decides which institutions should be responsible for the production and distribution of products and services, as well as the role that each institution has to play. In South Africa, there are constant debates around nationalisation and privatisation, with some arguing that strategic sectors (such as mines and banks) should be controlled by government (nationalised), while others argue that key state assets, such as Eskom, can only reach full potential if they are not controlled by the state but by private investors (privatisation). This is an example of a community seeking an answer to the question of who should produce these products or services – the state, private enterprise, or a combination of the two.

Figure 1.6 shows how, against the background of its needs, and by means of its political process, the community determines the **economic system** in which the need-satisfying institutions are established.

In a market economy, need-satisfying institutions, including business and government organisations, offer products and services to the market in return for profit. If the community is not satisfied with the way in which these organisations provide for its needs, it will change the economic system or choose a new need-satisfying system. The appearance of new businesses and the disappearance of others are examples of this cycle of need satisfaction in the community.

Another example of this cycle of the community getting what it wants, was in 1965 when South African businesses started

offering longer shopping hours. This change occurred because of the large-scale urbanisation of South African society and the participation of women in the labour markets. Working women found the opportunity to shop on Saturday afternoons and Sundays very useful.

Over the years, different communities have developed different approaches in order to satisfy their needs, and different economic systems have been tried and tested. Each of these systems, as chosen by various communities to satisfy specific needs, has its own approach to the fundamental economic problem of which products and services should be provided by whom and for whom. The study of these systems constitutes the field of economics as a social science and examines the means used to satisfy innumerable human needs using limited resources. Business management, in contrast, is concerned with the institutions that are created in the economic system to satisfy the needs of a community, and these are mainly business organisations.

To provide background to the study of business management and the role of business organisations in society, a brief overview of the different economic systems will be discussed.

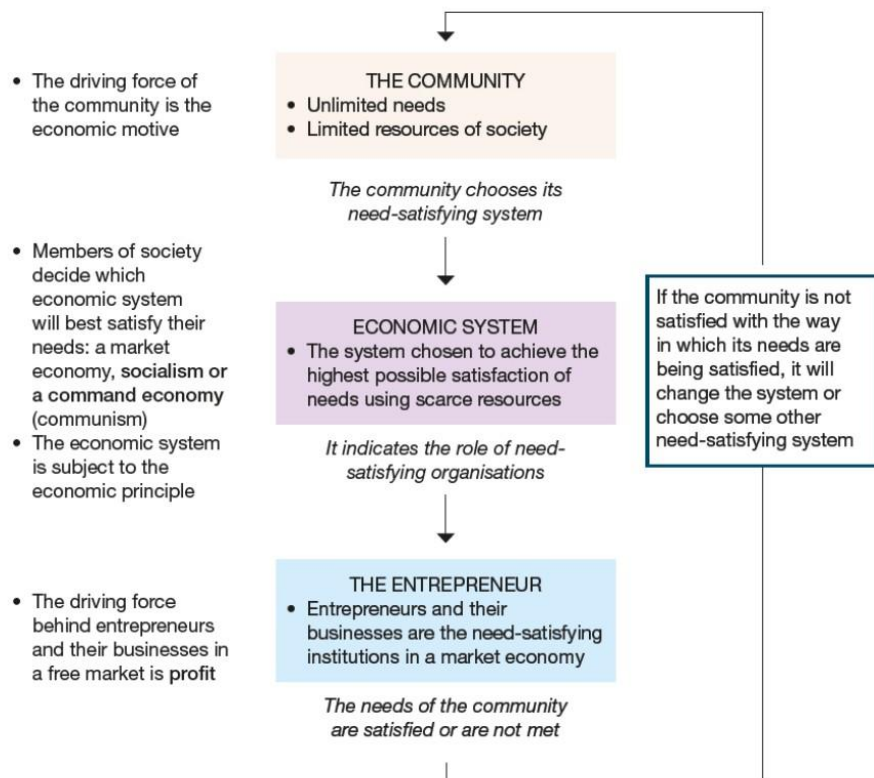


Figure 1.6 The cycle of need satisfaction in the community



The changing need for communication

The needs of society ultimately culminate in products or services that satisfy particular needs. A case in point is cell phones. People have a basic need to communicate and, where this is possible, to communicate with individuals over long distances. During most of the last century, the only way this could be done was by means of the landline telephone, where the caller first had to call a specific building (house or office) and then wait for the relevant person to answer, or to be found by whoever answered the phone.

The cell phone was, therefore, a response to the need to communicate immediately with a specific individual, without the inconvenience of having to locate the person first or the frustration of dealing with inoperative telephone lines.

As consumer needs have evolved, so have the design and functionality of cell phones and other mobile devices. Cell phones are no longer just a means of communication. The emergence of new mobile technologies in the form of smartphones (like the Samsung and the iPhone) and tablets (such as the iPad and Samsung Galaxy Tab) have taken mobile communication to a new level. Nowadays, cell phones also serve as high-resolution cameras, radios, music players, memory cards, email and Internet access devices, geographical positioning systems (GPS), and online banking devices. Smart accessories like smart watches have taken communication to a new level.

At the same time, the number of cell phones are declining, while the use of smart devices like the iPhone is on the rise as consumer needs change and they exchange their mobile phones for smartphones or tablets. In 2022, the ITU/UNESCO Broadband Commission for Sustainable Development has ratified the first multi-stakeholder study aimed at creating practical tools and actions that could enable nearly 3 billion more people to access and use the Internet through a smartphone by 2030. However, reducing the digital divide will also mean that the adoption gap for mobile Internet — which arises when individuals do not use the Internet even when there is mobile network

coverage in an area – should decrease; as it is now over seven times larger than the coverage gap (those individuals that do not have mobile network coverage) globally.¹³

1.4 The main economic systems

Every community is engaged in a struggle for survival that is necessitated by scarcity. Therefore, each community needs to have a complex mechanism that is constantly dealing with the complicated task of ensuring that the production and distribution of products occurs. Each country is confronted with the fundamental question of which economic system to choose to solve the problem of which products should be produced and marketed by which producers for which consumers. Each country must decide on a system to solve that problem.

Over the years, countries and communities have approached need satisfaction in different ways. There are three main approaches that are still followed by present-day communities for the solution of their fundamental economic problems. They are the **market economy**, the **command economy**, and **socialism**. While these economic systems are often incorrectly referred to as political ideologies, they should rather be described as economic systems influenced by politics. It is necessary to take a brief look at these systems to understand the origin and role of business organisations in society. As none of these economic systems is ever found in a pure form, each is looked at as merely an exposition of the basic premises of each system.

1.4.1 The market economy

One of the economic systems adopted for solving economic problems is the market economy, also known as the free-market economy or free-enterprise system.

It is a system in which most products and services demanded by a community are supplied by private organisations seeking profits. It functions on the following assumptions:

- Members of a community may possess assets and earn profits on these.
- The allocation of resources is affected by free markets.
- Members of the community can freely choose between products, services, places of residence and careers.
- The state keeps its interference in the system to a minimum.

In the market economy, particular value is attached to the right of individuals to possess property such as land, buildings, equipment or vehicles, including the right to earn an income from this property. This right is also the driving force of the market economy: it stimulates individuals and entrepreneurs to acquire more assets and to make a profit through the productive utilisation of their assets or their capital. In the pursuit of maximum profits, this capital, which are the resources of the community, is applied as productively as possible.

This aspect also affects the distribution of resources through free markets. The private possession of capital has an important influence on the manner in which resources are allocated or employed in a market economy, as the decisions about what products should be produced by which producers rest with those who own the resources.

As a result, farmers, factory owners, industrialists and individuals are free to do what they like with their assets. However, in their decisions concerning production and marketing, they have to take account of the tastes, preferences and other demands of consumers if they want to make a profit. Thus, the question of which consumers' needs should be met (for whom?) is answered. Such decisions in a market economy are not taken by a central body, but by a system of free markets, which indirectly puts a price on every production factor or consumer product.

Free markets also imply the third characteristic of this system: freedom of choice. The producers are able to decide whether they can profitably produce their products at the prices set by the market. This is the producers' free choice. Likewise, the consumer is free to choose whether to buy the product at that price. The consumer is also free to choose where to live, study and train for whichever chosen career. A system of free markets therefore necessarily entails freedom of choice. Private owners of property are free to own what they like and to do with it as they please: rent it out, sell it, exchange it or even give it away. People with businesses are free to produce what they wish and to employ whoever they choose. Similarly, workers, who own their labour, can use this human resource as they choose. In this way, **competition** comes into operation in a system of free markets.

The final characteristic of a free-market economy is minimum state interference in markets. The assumption is that the state should merely ensure the proper maintenance of the system without excessive regulation of, or even participation in, the business world.

However, market economies are not all about good news. With the global financial crisis in 2008, free-market economic systems (capitalism) came in for a lot of criticism, as the perception developed (with good reason) that bankers took huge and unsustainable risks based on greed, and when the system collapsed the state and ordinary people had to bear the cost. Capitalism has also been criticised for creating inequalities in society between rich and poor, the very aspect that movements like Occupy Wall Street opposed so strongly. More recently in South Africa, the Zondo Commission devoted over four years to investigating state capture, and found that almost every arm of government was plundered by corrupt officials in cahoots with private business enterprises like Bosasa and the Gupta brothers. This included crippling the country's revenue service, bringing the national carrier South African Airways to its knees, looting the agency that runs the country's passenger railways, and interfering

with the public broadcaster, the SABC.¹⁴ The exact cost of state capture is extremely difficult to calculate, but at the very least runs into many billions of Rands, and once again illustrates how corruption and greed led to massive losses for the government and the South African taxpayers.

1.4.2 The command economy

The second type of economic system is a **command economy** or a centrally directed economic system. Adopted by some countries as an alternative to a market economy, it was until recently known as communism. Its main characteristic is that the state owns and controls the community's resources or factors of production.

A command economy is a system of communal ownership of a country's factors of production in which the individual owns no property, with the exception of private domestic assets. This means that individuals own no land, factories or equipment. The state assumes complete responsibility for the production and distribution of products and services, and all decisions about what should be produced – and about how, by whom and for whom it should be produced – rest with a central government.

The choices of products and services are therefore limited to what the state offers; the design of these products falls entirely outside the control of ordinary individuals. It is the state that decides what the needs of the community are, how and where the desired products will be obtainable, and in which quantities they may be used. In the absence of free consumer choice, the profit motive is also absent, as is the competition factor, because, as mentioned, the state owns the organisations that produce the products and services.

In most countries that adopted a command economy, the system failed because it robbed individuals of the initiative to produce products and services, and it prevented the creation of

wealth. The poverty of the Soviet Union and other Eastern European countries, and their collapse in the late 20th century, is evidence that the system did not create wealth. Command economies are, nevertheless, still officially adhered to in some countries such as Cuba and North Korea.

1.4.3 Socialism

Socialism is the third economic system, and may be regarded as a compromise between a pure market economy and a pure command economy. Under socialism, the state owns and controls the principal (generally strategic) industries and resources, such as manufacturers of steel, transportation, communications, health services and energy. Less important and smaller matters such as trade and construction, as well as the production of materials and services of lesser strategic importance, are left to private initiative. In socialism, the fundamental assumption is that strategic and basic resources should belong to every member of the community. For the rest, businesses and consumers operate within free markets where they are at liberty to make decisions without restriction. Although consumers in a socialist economy have greater freedom of choice than those under a command economy, the provision of the basic products and services by the state is a limiting factor in the creation of wealth.



A free economy creates wealth

The Heritage Foundation and *Wall Street Journal's* 2022 Index of Economic Freedom¹⁵ measures how well 177 countries score on an analysis of 10 specific components of economic freedom. These components include business

freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labour freedom. Taken cumulatively, these factors offer an empirical snapshot of a country's level of economic freedom.

Scores are given out of 100, where 100 and 0 represent the maximum and minimum freedom of an economy respectively. The results demonstrate that countries with the highest levels of economic freedom also have the highest living standards.

Out of all the regions, sub-Saharan Africa scored the lowest on the 2022 Index of Economic Freedom, with an average of 53,4 (down from 54,4 in 2018). Mauritius was the highest-ranking African country, scoring 70,9 (down from 76,4 in 2015), making it the 30th most free economy in the world (down from 10th in 2015). Botswana (with 64,8) was third in the region and was rated 61st in the world (down from 35th in 2018). South Africa dropped massively, from fourth in the region to 17th, with a score of 56 and ranked 112th in the world – down from 61st in 2009.

The Heritage Foundation remarked that South Africa's position has declined sharply due to the sharp decline in its rating for fiscal health. South Africa is also plagued by rising public debt, inefficient state-owned enterprises, and spending pressures, while the judicial system is increasingly vulnerable to political interference. The numerous scandals (such as the investigation into state capture) and frequent

political infighting have severely undermined the integrity of government.

Countries with high scores on the Index of Economic Freedom generally earn higher incomes per capita. For example, Singapore, which is listed as the most free economy in the world, had an average GDP per capita in 2018 of US\$97,057. Compare this to one of the most economically repressed countries, Venezuela, with a GDP of only US\$5,178 per capita. Countries with lower scores generally produce and earn less. South Africa, for example, had a GDP per capita of only US\$12,023 in 2022, compared to Mauritius with US\$20,292 per capita.

1.4.4 Mixed economies

None of the three main economic systems occurs in a pure form in any country. They typically occur as mixed economies, with the dominant system incorporating certain characteristics of the other systems. For example, China officially has a command economy, yet employs private initiative, while state intervention in key industries in the major market economies of the world (especially after the global financial crisis) is increasing. The United States of America (USA) is often regarded as a beacon of a free-market economy, while it is in fact a **mixed economy**.

Figure 1.7 shows the relative GNI success of various countries with different economic systems and varying degrees of economic freedom. High-income countries are usually free market economies (such as Singapore and Switzerland) or developed socialist or mixed economies such as the USA, Sweden and the United Kingdom (UK). In comparison, the poorest countries are mostly economies that are not free (such as North Korea) or were only just emerging from command economies

(such as Ethiopia and Mozambique). The findings depicted in [Figure 1.7](#) seem to support the notion that wealth is generally best created by a well-functioning market economy, while predominantly command economies have not succeeded in creating significant wealth.

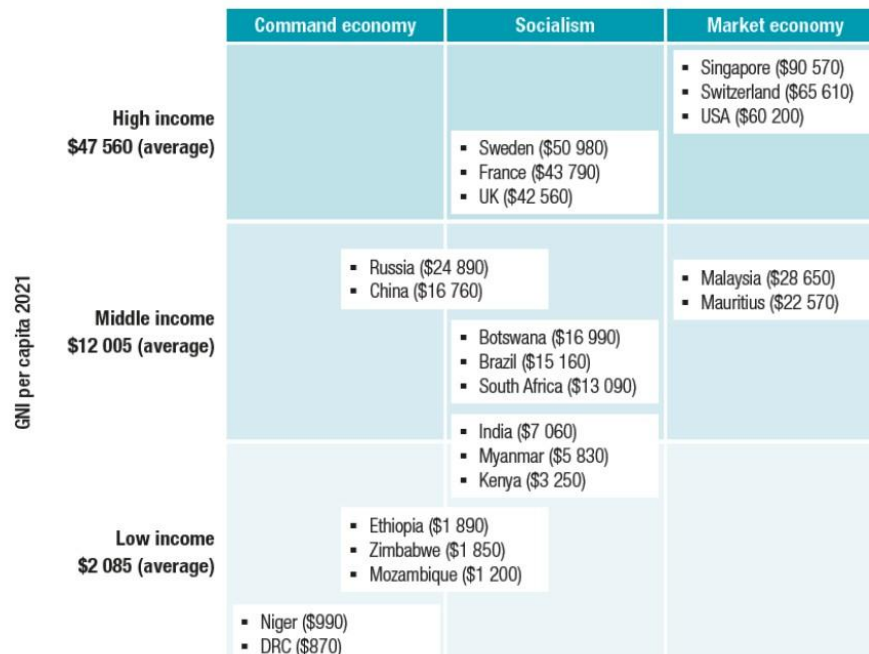


Figure 1.7 A comparison of the gross national income per capita in 2021 in a variety of economic systems (Atlas method, current US\$)

Source: Adapted from information obtained from the World Bank. Available at:

<https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD>

Countries such as South Africa, China and Brazil, with unique economic systems, rated about midway between the richest and poorest countries of the world. Several factors, including education, culture and work ethic, affect the prosperity of any particular country, but [Figure 1.7](#) shows that countries with well-functioning market economies are generally wealthier.

1.4.5 The state and economic systems

The fact that under both the market system and socialism the state intervenes to help solve the economic problem, does not mean that there is necessarily a tendency to move in the direction of a command or centrally directed economy. There are two conflicting views of the role of the state in economic systems. A **conservative** perspective argues that the role of the state should be extremely limited. This view questions the government's ability to solve social and economic problems and argues that the state's role should be carefully limited to what is absolutely necessary. However, there are certain key shortcomings inherent in the conservative view and the free markets it advocates:¹⁶

- Free markets are subject to economic fluctuations, unemployment and inflation.
- The conservative view creates economic inequality as income is distributed unequally.
- Markets are not always subject to perfect competition and where monopolies or imperfect competition is present, resources may be allocated inefficiently.
- Markets deal poorly with the side effects of economic activity, such as pollution.
- There are certain public goods that the market cannot provide, such as national defence and the justice system.

The **liberal** view points out these important limitations of the market system, and claims that governments can do a great deal to overcome these limitations, such as regulating private economic activity and providing goods and services of which the private sector produces too little. Examples of possible necessary government interventions may include the protection of natural resources by preventing pollution, the restriction of monopolistic practices by ensuring competition, and the protection of

consumers against false or misleading information and exploitation.

The state can also assist businesses by stimulating the economic system (for example, through promoting exports, encouraging the creation of small businesses, assisting research and granting subsidies). Essentially, government intervention in the economic system should aim to encourage economic growth and stability and effect greater equity in the distribution of income.

A much-debated form of government intervention takes place when the state does not limit itself to the above-mentioned activities, but acts as an entrepreneur and business owner in its own right and even competes with other privately-owned businesses. The state does this in the areas of transport services, electricity supply, arms manufacture, broadcasting and television services, and many other industries in South Africa.

The main reasons usually advanced for government intervention is that the private entrepreneur is not interested in these activities and may not even be capable of carrying them out. This may be because of the enormous scale of the businesses that produce services such as transport and electricity, and the corresponding risks attached to them. It is also argued that some organisations are of such strategic importance to the community that they cannot be left to the free market.

However, these arguments do not entirely justify a regular and continuous entrepreneurial role played by government. If any such intervention by the state is carried to excess, the result is a bureaucracy that affects national productivity adversely by limiting private competition. For that reason, amongst others, public-private partnerships (PPPs) have become commonplace. Governments often use PPPs to develop large capital projects in partnership with private enterprise. They pool their resources to develop, for example, infrastructure, which the private enterprise then runs for profit. Toll roads are a typical example of a PPP, as is

the Gautrain, the state-of-the-art rapid-rail project of the Gauteng Provincial Government.

1.4.6 Summary of different economic systems

Different countries use different economic systems to meet their needs, using their available resources. Each system thus has its own peculiar characteristics (see [Table 1.1](#)) and each democratic country arranges its economic system in such a way that it solves its wealth problem as effectively as possible in accordance with the wishes of its inhabitants.



The South African economy¹⁷

The economic systems of Western countries, from which the South African economy evolved, are typically combinations of a market economy and socialism.¹⁸ Despite the defects and shortcomings of the more-or-less free-market order in South Africa, most inhabitants believe that this economic system satisfies their needs better than any system that might be based on pure socialism or a command economy.

Since 1994, South Africa has steadily moved to an increasingly market-oriented position with decreasing government intervention and control. This move has undoubtedly had a positive effect on the South African economy, as can be seen in the figures below.

In 2004, South Africa's GDP figure stood at R1 404 billion and GDP per capita was R30 129. Consumer price inflation was at its lowest level in 40 years (3,4 per cent) and producer price

inflation was at a 58-year low (1,9 per cent). South Africa had become an important role-player in global exports and, hence, in the global economy.

By 2007, economic stability was evident in South Africa. With GDP growth of 5,1 per cent for the year, the country's economy was at its strongest in over two decades.

However, South Africa was not able to avoid the effects of the global meltdown in 2008, when the country's GDP grew by only 3,1 per cent. By June 2009, GDP had decreased by 6,4 per cent to -1,7 per cent, pulling South Africa's economy into recession. Growth recovered somewhat in 2010 through 2014, although it did not reach the growth targets set by the government, and in 2018 and 2019, growth slowed considerably. The COVID-19 pandemic and the resulting national lockdowns hit the country hard, and in 2020 the economy contracted by 6,4 per cent, a decline that it was not able to regain in 2022 with growth of 4,9 per cent. By 2021, South Africa was the second largest African economy with a GDP of US\$419,95 billion (compared to Nigeria with a GDP of US\$440,78 billion) and a GNI per capita (current US\$ method) of US\$14 140 (compared to US\$5 250 for Nigeria). There were some worrying signs that the economy seriously needed revitalisation and new thinking by the South African government.

Certain factors make South Africa a favourable investment destination and other factors deter investors from the country.

Positive factors include:

- Sound macroeconomic policies

- 100 per cent ownership permitted
- A large, growing domestic market in South Africa
- Modern communication systems
- Rich in natural resources
- Modern banking and financial services.

Negative factors include:

- Policy uncertainty in key areas, such as mineral rights
- High rates of crime and corruption
- Weak economic growth
- Increasing signs of government intervention in markets
- Extensive exchange controls, although these are gradually being eased
- Major skills shortages, particularly in management roles
- High levels of unemployment
- The inability of government to solve key infrastructural issues such as electricity shortages and the deteriorating rail infrastructure.

Bearing in mind that pure forms of the different economic systems almost never exist, the most appropriate description of the prevailing economic system in South Africa is that it is a mixture between the market system and the socialist system. More precisely, the South African economic system can be defined as one that is moving towards a market-oriented economy, yet presently has a high degree of government participation in, and control of, the economy.

Table 1.1 A comparison of the main economic systems

	Market economy	Socialism	Command economy
Main characteristics	- Private ownership of the factors of production - Freedom of choice	- Basic industries owned by state - Freedom of choice	State owns and controls all industries and agriculture
Markets	Free competition	Limited competition as a result of state industries	No competition
Driving force	Profit and reward achieved according to individual ability	- Profit motive recognised - State-owned concerns pay based on workers' needs	- Profit not allowed - Workers urged to work for the glory of the state
Management	- Private businesses create the management environment - Managers free to make decisions - People free to choose their careers	- Management environment comprises state-owned and private businesses - Decisions restricted to government policy in state-owned organisations	- State creates the management environment - No freedom of decision - Managers are also party members
Labour	- Workers independent and free to choose jobs and employer - Workers free to join unions and to strike	- Workers free to choose jobs and employers - Limited right to strike in state organisations	- Limited choice of jobs - Unions controlled by the state
Consumers	- Freedom of choice in free markets - Spending only limited by income	Freedom of choice, except products of state organisations	- Rationing of products - Very limited choice - Prices of products and income levels set by the state
Advantages	- Private initiative occurs - Economic freedom	- Possibility of full employment - State stabilises economic fluctuations	State can concentrate resources towards particular ends
Disadvantages	- Unstable environment - Cyclical fluctuations - High social costs	- Little incentive in state organisations - State organisations can be unproductive	- Low productivity - Low standard of living - Planning is difficult or impossible

South African consumers enjoy a high degree of freedom to buy what they want and to shop where they want.

Despite increasing signs of government intervention in South Africa, individual entrepreneurs are still relatively free to ascertain which products and services consumers want, and then offer these at a price the consumer is prepared and able to pay. A complex network of organisations evolves out of the interaction between needs and the entrepreneurs who satisfy these needs. In a market economy, this network is termed the business world.

1.5 The need-satisfying institutions of the market economy

When we think of need-satisfying institutions, it is easy to think that we are referring to only business organisations. However, business organisations are not the only such institutions in a market economy, as there are certain needs that cannot be satisfied by business organisations economically, and that burden is typically carried by the government and not-for-profit organisations. In the sections that follow, these need-satisfying institutions are outlined in more detail.

1.5.1 Business organisations

The workings of a market economy are affected by its **need-satisfying institutions**, which are the private business organisations that, for the most part, satisfy the needs of the community. The business world, therefore, consists of a complex system of interdependent organisations that mobilise the resources of a country to satisfy the country's needs at the risk of a loss and in the pursuit of profit.

Such are the conditions under which a private business exists in a market economy. Under such a system, an organisation has to make a profit to be able to survive. This can happen only if it satisfies the needs or wishes of the consumer and, hence, the community.

By meeting the needs of the consumer, business organisations solve the fundamental economic problem: which products and services should be produced, how they should be produced, and for whom.

Figure 1.8 shows how businesses, as the main need-satisfying institutions under this system, use the resources of society to produce products and services for consumers.

Consumers' needs culminate in the demand for consumer products and services offered on the market by businesses (in department stores, boutiques, car showrooms, pharmacies, and so on). Therefore, consumer demand helps to determine which

products and services need to be provided, and for whom.

To be able to produce products and services, business organisations need resources, so a demand arises for production factors, which are offered in the factor market by the community. Business organisations pay salaries and wages to the community in exchange for production factors, and consumers in turn pay for their products and services with that money. Competition in both markets determines how the products and services are to be produced so that the entrepreneur can continue to make a profit.

In order to make a profit, the enterprise must therefore take the initiative and accept certain risks in mobilising the resources of the community before items can be produced. The owner of a bicycle factory, for example, has to erect or rent a building, install machinery, buy raw materials and components, and employ people to manufacture bicycles as productively as possible to satisfy the needs of consumers. The transport contractor has to transport products to places where there is a need for them. The retailer has to present a range of products conforming to consumers' needs as conveniently as possible. A banker does not produce a physical article, but provides a service in the form of finance placed at the disposal of manufacturers, dealers and numerous other entrepreneurs and consumers. These are but a few examples of the innumerable activities carried out in the business world by business organisations (large and small, local and multinational) that play an indispensable part in South African society.

Business organisations may be defined as those private need-satisfying institutions of a market economy that accept risks in pursuit of profit by offering products and services on the market to the consumer. Business organisations assume one of a variety of forms: a sole proprietorship, a partnership, a close corporation, a private company or a public company (discussed in Chapter 3).

While a business organisation is a private enterprise (one owned by private entrepreneurs), in a mixed-market economy there are government and non-profit-seeking organisations (such as organisations for charity) that satisfy community needs, in addition to profit-seeking businesses, especially those needs that cannot be addressed profitably by business organisations.

1.5.2 Government organisations

In the discussion of the various economic systems, several principles of a market economy were identified. One principle was the condition that government should intervene as little as possible with market mechanisms and that, when it does, it should confine itself to the protection and creation of collective non-profit-seeking facilities and services such as those concerned with healthcare, education, justice and defence. The government departments responsible for such state functions may also be regarded as need-satisfying organisations. However, because the profit motive is absent, and the services provided are collective, such government institutions fall under the subject of public administration rather than business management.

The discussion of the various economic systems also mentioned that the pure market economy exists only in theory and that several mixed systems exist, including the South African system, which was defined as a market-oriented economy with a high degree of state intervention. The intervention specifically indicates the large number of government organisations in South Africa, which are also known as state-owned enterprises (SOEs), parastatals or public corporations. Unlike the collective systems that produce products and services on a non-profit-seeking basis, these public corporations offer products and services for profit, and sometimes in competition with other businesses in the market. Sometimes, these public corporations may be regarded as business organisations, but with this difference: they are owned and controlled by the state and not by a private

entrepreneur. Eskom, Transnet and South African Airways (SAA) are examples of such public corporations, amongst others.

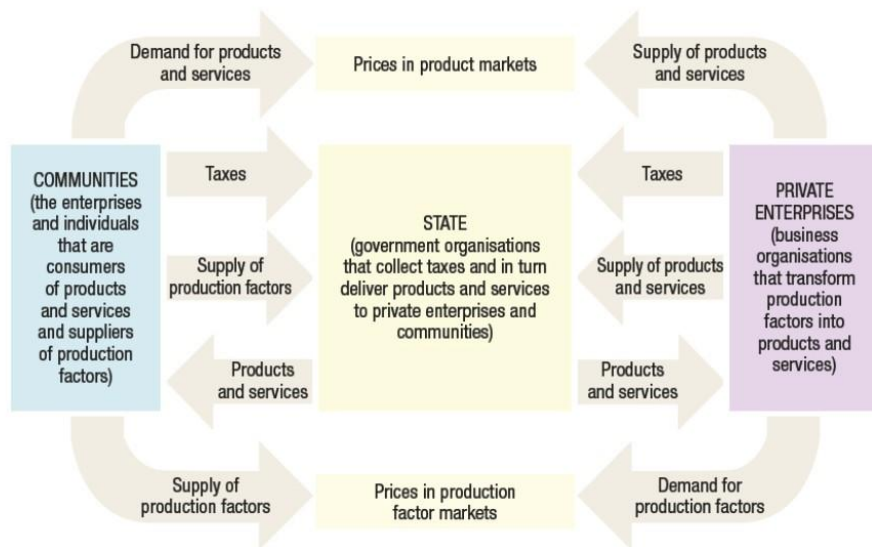


Figure 1.8 Products and services offered in the market system

Source: Adapted from: Samuelson, P.A. & Nordhaus et al. 2010. *Economics*. Nineteenth edition. New York: McGraw-Hill Company, p. 41.

These public corporations may also be regarded as need-satisfying institutions through which the state creates products and services believed to be of strategic, economic or political importance to the community, especially as regards self-sufficiency in transport, energy, military equipment and armaments. Despite early successes in privatisation (the state sold Sasol in 1979, in 1998 ACSA was privatised, and in 2003 Telkom was listed on the JSE and the New York Stock Exchange), this process has seemed to stall more recently due, *inter alia*, to resistance from labour unions concerned about job losses.

The effectiveness and efficiency of government organisations are often not comparable to that of private organisations. For example, the state has had to bail out state-owned enterprises

like SAA several times in the past decade, while the performance of others, such as Eskom, the South African Broadcasting Corporation (SABC) and Prasa is unsatisfactory. However, those that seek profits also fall within the scope of business management.

1.5.3 Non-profit-seeking organisations

Non-profit-seeking organisations are the other group of need-satisfying institutions that offer services, and, to a lesser extent, products not provided by private enterprise or government organisations. Amateur sports clubs, cultural associations and welfare organisations are all examples of non-profit-seeking organisations, as are associations of organised business such as the National African Federated Chamber of Commerce (NAFCOC) and Business Unity South Africa (BUSA). They differ from other need-satisfying organisations in that they provide their services without seeking profit.

The continued existence of such organisations therefore depends on the financial support of those members of the community who require their services, or from charitable contributions. Although such organisations do not set profit-making as their primary objective, they often function on the same basis as a business organisation, seeking a surplus or at least a balance of income and expenditure. These organisations – especially the larger ones – therefore employ management principles. Despite their small share in the economy, the study of such organisations also falls within the field of business management.

1.6 The nature of business management

In the next sections, we explore the nature of business management as a newly evolved science, and its relationships with other sciences.

1.6.1 Economics and business management as related sciences

A society is constantly faced with the problem of how to use its scarce resources to satisfy its needs as efficiently as possible. Economics is a social science that studies how humans choose different ways of using their scarce resources to produce products and services. It is therefore a study of the economic problem and related variables, with the improved well-being of the community as its preconceived goal. The variables studied by economics include prices, money, income and its distribution, taxes, productivity, government intervention and economic growth, as well as many other economic questions affecting the well-being of a country.

Business management is an applied science concerned with the study of those institutions in a particular economic system that satisfy the needs of a community. In a mixed-market economy, as is found in South Africa, private business organisations are therefore the main area of study.

While economics examines the entire economic system of a country, business management limits its studies to one component of the economic system: the individual organisation, whether it is a private business, a public corporation or, to a lesser extent, a non-profit-seeking organisation. For example, economics examines the problem of inflation against the background of its implications for the national economy, while business management is more concerned with the effects of inflation on individual businesses.



Critical thinking

Government organisations and private businesses: Servicing the needs of South Africans

In the South African economy, both government organisations and private businesses act as society's need-satisfying institutions.

Students often ask, 'How is it possible that government organisations act as need-satisfying institutions?' and 'How is it possible for government organisations and private businesses to service similar needs?'

The answer to the first question is that government organisations very definitely act as need-satisfying institutions in that they provide an array of both products and services to their citizens. In most cases, these products and services are exchanged for rates and taxes. The key difference between government organisations and private businesses lies, however, in the fact that private businesses seek to make profits through the fulfilment of society's needs, whereas this is not the case with government institutions.

Regarding the ways that government organisations and private businesses service similar needs, two examples are particularly relevant in the South African situation.

The first example is society's need for a safe and secure environment. South Africa has a

particularly high crime rate compared to the crime rates of other developed countries. In response to this, both government organisations and private businesses seek to address society's security needs. The government does this through the provision of policing services, an efficient judicial system and effective facilities for correctional services. In doing this, the government seeks to address society's needs, although not with a profit orientation. At the same time, especially since government seems to be failing in some aspects of providing safety to its citizens, many business organisations provide products and services to address the security needs of society. Examples of such products include electric fencing, burglar alarms and security gates, while examples of services include private security services, vehicle-tracking and short-term insurance. In contrast to the government organisations, businesses providing these products and services do so in exchange for profits.

Another example in South Africa is provided by the healthcare system. Both government and private businesses seek to address society's need for healthcare. Government seeks to provide healthcare services to its citizens through public hospitals, clinics and emergency services, without a focus on profit. At the same time, private companies such as Netcare and Mediclinic seek to offer the same services, but with the goal of providing higher-quality services in exchange for profit.

More examples exist in the areas of education, transport and social services.

1.6.2 The purpose and task of business management

As discussed, the cycle of need satisfaction indicated that the primary human endeavour is to achieve the highest possible satisfaction of needs with scarce resources. This endeavour follows the economic principle to which every economic system is subject. It follows that any component of an economic system, including a business organisation, is also subject to the economic principle. Where the individual business organisation is concerned, this entails achieving the highest possible output with the lowest possible input of production factors.

From this emerges the task of business management, which is to determine how an organisation can achieve the highest possible output (products and services), with the least possible input (human resources, natural resources and capital). More specifically, the task of business management entails an examination of the factors, methods and principles that enable a business to function as efficiently and productively as possible in order to achieve its objectives. While businesses are often criticised for being too obsessed with profitability, there is an emergence of many responsible businesses and more responsible approaches in management to ensure that the needs of a wide range of stakeholders are met (such as Wonderbag example). In short, it is a study of those principles that have to be applied to make a business organisation as successful as possible over as long a time as possible – what we refer to as organisational sustainability. Thus, it may also include a study of the environmental factors that could have an effect on the success of an organisation, its survival, or its profitability.



The purpose and task of business management

The task of business management is to examine factors, methods and principles that enable a business organisation to maximise its profits and achieve its objectives as sustainably as possible.

- The economic principle consists of the human endeavour to satisfy unlimited needs with limited resources. All economic systems are subject to it.
- In a mixed-market economy, a business organisation as a need-satisfying institution is a component of the economic system, and is therefore also subject to the economic principle.
- According to the economic principle, a business organisation always has to endeavour to obtain the highest possible output (products and services) at the least possible input (lowest cost). This is the purpose of business management.
- The business organisation is the subject studied by business management.



Approaches, principles and methods of business management for productive organisational functioning

General approaches to business management methods (see Chapters 6 to 10), which have been tested over the years, include the following:

- The mechanistic approach, introduced at the turn of the century, emphasises mass production, especially under the management of engineers.
- The human-relations approach originated in the 1930s and emphasises the motivation of workers.
- The contingency approach of the 1950s argues that the management approach is prescribed by the prevailing situation.
- Strategic management, the most recent approach, makes a special study of how management should act in an unstable environment.

Various supplementary approaches and developments, such as organisation design, the management of change, information management, corporate culture and the management of diversity are still being studied.

In the field of marketing management (see Chapter 13), research into experimentation with approaches and methods has also contributed to the more productive operation of businesses.

The marketing concept replaced the

production approach in management philosophy to enable businesses to adjust their resources more effectively to the needs of consumers.

Market research, as an instrument of marketing philosophy, has developed many methods of studying the needs of consumers.

Methods of studying and determining consumer habits and segmenting markets, as well as strategic management aids, have also stimulated marketing management to higher productivity.

Financial management (see Chapter 14) as an area of business management has also tested many methods, especially financial ratios. The following are some examples:

- Ratios to access the financial performance of businesses
- Capital budgets and capital-budget techniques, in particular to evaluate potential investment possibilities
- Approaches to dividend policy
- Approaches to and methods of financing growth and expansion as profitably as possible.

In the same way, numerous methods, principles, approaches and problems in other areas of business management (such as production and operations, purchasing, human resource management and external relations (see Chapters 11, 12 and 15) have been researched and tested.

The sum total of this sustained study of, and experimentation with, management approaches and methods, and research on management problems, constitutes the body of knowledge known as business management.

The study of business management entails comprehensive and ongoing research and the examination of management problems, the testing of approaches and principles, experimentation with methods and techniques, and the continuous weighing up of environmental variables. The result is an applied science that indicates how business organisations can best be directed towards realising their objectives.

Therefore, in the case of business organisations, the economic principle is defined as the endeavour to achieve the highest possible income in the market at the lowest possible cost, with profit as the favourable difference between the two. This principle is also applicable to government organisations and non-profit-seeking organisations. The only difference is that in the case of government organisations and non-profit-seeking organisations, the difference between inputs and outputs is not measured in profit, but rather in terms of surplus, savings or higher productivity.

In a business organisation, the economic principle and the profit motive coincide, making profits the driving force, and so the task of business management becomes one of maximising profits. However, this does not mean that the task of business management is to maximise profits at the cost of everything else, especially the well-being of society. In today's business environment, the objective is rather to maximise profits through good management and care of employees, customers, investors and society in general.

To summarise, the task of business management is to study those factors, principles and methods that will lead a business

organisation, as a component of the prevailing economic system, to reach its objectives. In a mixed-market economy, this primarily – though not exclusively – means making a profit.

1.6.3 Is business management an independent science?

Business management is a relatively young subject and its scientific basis is still the subject of lively debate. There is no easy answer to the question of whether business management is an independent science, as there are many diverse opinions about what exactly constitutes a science.

The most common definitions of a science emphasise different characteristics. Business management is continually being tested in the light of these characteristics to determine whether it merits the status of a science.

- The most outstanding characteristic of a science is a clearly distinguishable subject of study that forms the nucleus of a discipline. Business management satisfies this condition, particularly with regard to the business organisation which, as a component of the market economy, is its subject of study.
- A fundamental characteristic of a science, which supplements the one mentioned above, is that it should be independent of other sciences. As we have already pointed out, business management has its own identifiable subject of study, and from this point of view may be regarded as a science.

However, it should be clearly understood that a business organisation can be studied by other sciences for other reasons. People are social animals who organise themselves into groups to fulfil purposes that are too big or too complex for a single individual. A business organisation comprises people who wish to attain certain personal and organisational goals. Business organisations may also, therefore, form a subject of study for sciences such as sociology, psychology and medicine. However, the way in which business

management views an organisation is indicated by the purpose of the study. This is to examine those things that may guide businesses as effectively as possible towards their financial and non-financial objectives. This essential characteristic also allows business management to qualify as a science because, unlike other sciences, it is concerned mainly with ways of maximising the sustainability of a business.

- A third characteristic of a science is that it is a uniform, systematised body of knowledge of facts and scientific laws, and that its laws and principles are constantly tested in practice. In this regard, business management encompasses a great deal of systematised knowledge found worldwide in the comprehensive literature on the subject. It also contains numerous rules and principles that may successfully be applied in practice, even though they are not as exact as those in the natural sciences. This leads to the view that management is a normative science, which means that it constantly endeavours to establish norms or guidelines for management with a view to maximising organisational sustainability.
- It is also said that the final purpose of a science should be to produce a generally accepted theory. In this regard, business management does not yet satisfy the requirements of an independent science. Because of the rapidly changing environment in which business organisations exist, it is doubtful whether this stage will ever be reached. It should also be borne in mind that the involvement of people in the management process and the influence of uncontrollable variables make it difficult, if not impossible, to explain management problems with any single uniform theory.

While it is still debatable whether business management can be regarded as an independent science, this examination at least provides an insight into its nature. To summarise, business

management is a young applied science that sets out to study the ways in which a business can achieve its financial and non-financial objectives. However, this does not mean that the application of management principles and approaches should always be done in a scientific way, nor does it require that the intuition and experience of managers be summarily dismissed. Successful management is often regarded as an art as well as a science.

1.6.4 The interfaces between business management and other sciences

Throughout the discussion of the scientific status of business management, it was held that the business organisation, as the subject of study, is the most important entity. However, one should bear in mind that businesses are also studied by other disciplines for other reasons.

Business management, in its task of studying and examining those things that help a business to attain its goals as efficiently as possible, constitutes a young, developing science that frequently makes use of the knowledge gathered by other disciplines on the functioning of the business organisation, even though these disciplines may not be interested in the profitability of organisations. In short, business science takes from other disciplines what it can use to help businesses to accomplish their goals.

Many current management concepts originated in other sciences and now form an integral part of the body of knowledge of business management. For example, the concept of strategy was borrowed from military principles; sociological knowledge and principles help explain the behaviour of an organisation; engineering principles are applied to improve productivity in the manufacture of products; and mathematical models and computer science are used to help management make decisions. Furthermore, advertising frequently uses psychology, the arts and

communication principles and techniques – all, of course, from the viewpoint of profitability.

Table 1.2 provides a self-explanatory exposition of the multidisciplinary nature of business management. In view of the constantly changing environment in which contemporary businesses operate, business management is likely to make more, rather than less, use of other sciences in future.

1.7 Classifying the study material of business management

In order to decide on appropriate study material relating to business management, it is useful to follow a guideline that will offer a broad basis upon which knowledge of business management can be built. This guideline can be formed around questions that arise in response to phenomena that influence costs or profits for the business. This is where the task of management arises: to examine those things that will best improve the profitability of the business organisation to ensure its success.

The various activities that management must undertake to make a business organisation work can also be seen to constitute the field of business management:

- Markets must be researched to determine whether there is a need for a particular product.
- Raw materials must be purchased to produce such products.
- Staff and equipment must be acquired to manufacture the products.
- Money has to be obtained to pay for the materials and the equipment, as well as to remunerate staff.
- These often-disparate activities have to be co-ordinated and managed.
- To give scientific direction to the study of these interrelated activities, the total field of business management is divided into seven functions. Each function (or management area)

comprises all aspects of a specific group of activities. (See [Table 1.2](#) and the associated discussion.)

Overall, one of the most challenging tasks of business management is to integrate and co-ordinate the various activities and resources in an organisations in such a way that the best possible results are achieved with the lowest possible input.

Table 1.2 Interfaces between other sciences and business-management functions

	General management	Marketing management	Financial management	Production and operations management	Purchasing management	Human resource management	Public relations management
Anthropology	Cultural relationships and organisational behaviour Management of diversity	Cultural determinants of demand Behavioural structures				Employee behaviour	Behaviour of external groups
Economics	Environmental scanning	Market analysis of, for example, consumer expenditure	Influence of financial strategy Behaviour of financial markets	Location problems	Market analysis of availability and stockpiling Evaluation of competition in the market	Labour-market analyses Remuneration structures	Economic influence of external groups
Engineering		Product development		Erection of factories Factory outlay	Value analysis	Safety of employees	
Law (especially mercantile law)	Format of an organisation	Misleading practices Product safety Packaging	Takeovers Mergers	Pollution of factories	Representations Law of contracts	Conditions of employment Negotiation with unions Labour laws	Misleading messages Sponsorship contracts

	General management	Marketing management	Financial management	Production and operations management	Purchasing management	Human resource management	Public relations management
Computer science	Information management Planning models	Marketing research E-research	Financial models	Optimal outlays	Materials-requirement planning Manufacturing-resource planning	Labour-information systems Labour research	Public relations research
Accounting	Control systems Budgets	Marketing audit Sales and cost analyses	Interpretation of financial statements	Cost analysis	Valuation of inventory Cost analysis	Human-asset accounting	Budgets
Psychology	Leadership Negotiation Motivation	Consumer behaviour Communication			Negotiation	Testing Performance analysis	Communication Persuasion
Sociology	Organisational behaviour Interfaces between the organisation and the environment	Socio-demographic classification Group influences			Business ethics	Organisational behaviour	Group influence
Mathematics and statistics	Decision models Planning models	Market research Market forecasting Market measuring	Financial models Deviations		Inventory forecasting	Human resource planning models	Pre- and post-testing of programmes

The main reason for dividing the field of business management into different functional areas is the need to systematise the large body of knowledge. The multidisciplinary nature of the subject also makes division necessary. The training and skills required for the various functions are highly diverse, and, on occasion, each function makes use of different disciplines to achieve its management purpose. Financial management makes use of computer science, risk management and accountancy concepts, while human resource management uses a great deal of psychological knowledge and social theory.

Some degree of specialisation in a specific management function is necessary to make management as productive as possible. In this book, however, the functions are distinguished only for analytical purposes, to provide a better understanding of each and to explain its relation to the others.

The function of general management includes an examination of the management process as a whole: the planning that management has to do, the organisation that it has to establish to carry out its plans, the leadership and motivation needed to get things done, and the control that has to be exercised over the whole process. This requires a survey of the different management approaches that may be adopted. General management is the overall function through which top management develops strategies for the whole business. It cuts through all the other functions because they are carried out at the top level as well as in each functional area.

The operations function concerns all those activities that mobilise the resources (such as raw materials, capital and human resources) of a business organisation to create the finished products and services that can be distributed to meet the needs of its customers.

The human resources function entails the management of a variety of activities involved in driving employees within a business organisation to achieve their maximum potential for the

organisation and themselves.

In so doing, this function guides employees towards the accomplishment of the objectives and vision set out by general management.

The marketing function is responsible for marketing the products or services of the business. This process includes assessing the market and the needs of consumers, as well as developing a strategy to satisfy those needs profitably.

The financial function includes the acquisition, utilisation and control of the money that the business needs to finance its activities, raw materials and equipment in such a way that its profits are maximised without endangering its liquidity or solvency.

The purchasing and supply functions are responsible for the acquisition of all products and materials required by the business to function profitably – raw materials, components, tools, equipment and, in the case of wholesalers and retailers, the inventory to be purchased. Purchasing managers have to be in contact with suppliers so that they are aware of new products and know the prices at which products can be bought. They also have to keep the inventory up to date in order to ensure continuity of functioning.

Ultimately, the functions form a synergistic whole that directs the business organisation towards its goal and objectives.

1.8 Summary

This chapter has explained the business organisation's role in society. It has also considered the interaction between society and the business organisation as a social process that transforms a country's means of production so that products and services can be produced that will satisfy the needs of society. This process was explained in greater detail in the discussion of a business organisation as a component of the economic system, where it

was specifically shown how, as a need-satisfying institution of the market economy, the business organisation provides for the needs of people. Lastly, this chapter examined the task of business management.



Small business perspective

While South Africa is a relatively free economy, and entrepreneurs can generally produce what they want for whom they want to sell to, it is not particularly easy to start a business in South Africa. Here we highlight just three problems that South African entrepreneurs have to deal with.

Firstly, there are several laws and regulations to comply with. The Companies Act (No. 71 of 2008), the Consumer Protection Act (No. 68 of 2008), tax laws and regulations, and the Basic Conditions of Employment Act (No. 75 of 1997) are but a few of the laws, regulations and sector charters with which small businesses have to comply. It can be time consuming and expensive to ensure compliance with all the relevant legislation and regulation.

It may also be difficult to find financing for new business ventures, especially if the entrepreneur does not have assets to offer as security. Banks will offer secured financing if the entrepreneur has assets to offer as collateral, but will be reluctant to provide unsecured lending to start-up ventures. While there are several other funding bodies, it often requires patience and effort from the entrepreneur to go through the

rigorous and bureaucratic application processes.

The lack of skilled labour means that skilled employees come at a high cost, which may act as a constraint to the growth and expansion of the new venture. This is just one example of how scarce resources may constrain entrepreneurial ventures, especially in developing countries.

Given the importance of entrepreneurs in fuelling innovation, growth and employment, it is important for South Africa to find ways to make it easier to start and grow small businesses. Currently, South Africa ranks 84 out of 190 countries globally on the World Bank 'ease of doing business' scale, which means that there is still a lot of improvement required in terms of making it easier to set up and operate businesses



Questions for discussion

Reread the SAA case study at the beginning of the chapter and answer the following questions:

1. An airline is a very different type of business compared to a manufacturing company such as a producer of, for example, processed meats. How might the resources, transformation process and outputs of an airline and a processed meats producer differ?
2. What are the factors that determine SAA's competitiveness?
3. During 2020 and 2021, South Africa's economic conditions were not favourable. What impact did this have on the airline industry, and on SAA in particular? Provide reasons.
4. In your opinion, how can SAA turn the business around to become more competitive?



Multiple-choice questions

1. Which of the following statements about socialism is true?
 - a. There is minimum state interference in markets.
 - b. The state owns and controls the principal industries such as communication, health services and transportation.
 - c. People with businesses are free to use their resources as they choose.
 - d. The state is fully responsible for the production and distribution of products.

2. What is the key purpose of business management?
 - a. To examine the factors, methods and principles that enable a business to function as efficiently and productively as possible to maximise profits.
 - b. To produce the highest number of units of products and services at the lowest possible cost.
 - c. To study, understand and determine how to satisfy the needs of consumers.
 - d. To identify problems and provide solutions for effective management.

3. The description of business emphasises different elements. Which one of the following combinations is correct?
 - a. human activities, production
 - b. human activities, production, profit
 - c. human activities, production, exchange, profit
 - d. production, exchange, profit

4. Which of the following are contributing factors for dividing the field of business management into different functional areas?

- i. The training and skills required for the various functions are highly diverse.
 - ii. To give scientific direction to the study of these interrelated activities.
 - iii. The multidisciplinary nature of the subject.
 - iv. The need to systematise the large body of knowledge.
-
- a. i, ii
 - b. ii, iv
 - c. ii, iii, iv
 - d. all of the above
-
5. Many micro-enterprises form part of the _____ sector.
- a. formal
 - b. government
 - c. NGO
 - d. informal

References

- 1. GDP as at Q2 2022, calculated at constant 2015 prices, seasonally adjusted and annualised.
- 2. Statistics South Africa. 2021. *Annual Financial Statistics 2021*, Statistical release P0021, Statistics South Africa, Pretoria. Available at: https://www.statssa.gov.za/?page_id=1854&PPN=P0021.
- 3. Note that the definition of the informal sector specifically excludes illegal business and activities.
- 4. SME South Africa. 2022. *Formal and informal business in South Africa*. Available at: <https://smesouthafrica.co.za/formal-and-informal-business-in-south-africa/>.

5. GNI per capita is calculated as the total GNI divided by the mid-year population.
6. The World Bank. n.d. *GNI per capita, Atlas method (current US\$)*. Available at: <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD>.
7. Rajgopaul, D. 2018. 'SA entrepreneur wins award at the World Economic Forum,' *IOL Business Report*. Available at: <https://www.iol.co.za/business-report/entrepreneurs/sa-entrepreneur-wins-award-at-the-world-economic-forum-14741301>; Wonderbag. (n.d.) *Wonderbag*. Available at: <https://www.wonderbagworld.com>.
8. BBC. 2021. 'South Africa court blocks Shell's oil exploration,' *BBC*. Available at: <https://www.bbc.com/news/world-africa-59809821>.
9. OUTA. n.d. *The OUTA Board*. Available at: www.outa.co.za/about.
10. The World Bank. n.d. *GDP growth (annual %) – South Africa*. Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ZA>.
11. Department of Labour. 2021. *21st Commission for Employment Equity (CEE) ANNUAL REPORT (2020-2021)*. Available at: https://cisp.cachefly.net/assets/articles/attachments/85727_21_cee_report.pdf.
12. Just Stop Oil. n.d. *Just Stop Oil – No New Oil and Gas*. Available at: <https://juststopoil.org/>.
13. Vodafone. 2022. *Action plan agreed for universal smartphone access*. Available at: <https://www.vodafone.com/news/digital-society/UN-ratifies-smartphone-access-report>.
14. Maseko, N. 2021. 'South Africa's Zondo commission: Damning report exposes rampant corruption,' *BBC*. Available at: <https://www.bbc.com/news/world-africa-61912737>.

15. The Heritage Foundation. 2023. *Index of Economic Freedom*. Available at: <https://www.heritage.org/index/>.
 16. Baumol, W.J. & Blinder, A.S. 2012. *Economics: Principles and Policy, 12th Edition, International Edition*. Mason, OH: South-Western Cengage Learning.
 17. The World Bank. n.d. *GNI per capita, Atlas method (current US\$)*. Available at: <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/CN-4E-XT?display=graph>;
The Heritage Foundation. 2023. *Country Rankings*. Available at: <http://www.heritage.org/index/ranking>.
 18. The World Bank. 2019. *Business Read (B-READY)*. Available at: <http://www.doingbusiness.org/en/rankings>.
-